

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

H.R. 5241

AN ACT MAKING APPROPRIATIONS FOR THE TREASURY DEPARTMENT, THE UNITED STATES POSTAL SERVICE, THE EXECUTIVE OFFICE OF THE PRESIDENT, AND CERTAIN INDEPENDENT AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1991, AND FOR OTHER PURPOSES

PART 2 (Pages 1-407)

Department of the Treasury
Executive Office of the President
General Services Administration
National Archives and Records Administration
Nondepartmental witnesses
Office of Personnel Management
U.S. Postal Service

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

WEDNESDAY, MARCH 28, 1990

**U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.**

The subcommittee met at 10 a.m., in room SD-116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini and Mikulski.

DEPARTMENT OF THE TREASURY

BUREAU OF THE PUBLIC DEBT

STATEMENTS OF:

GERALD MURPHY, FISCAL ASSISTANT SECRETARY

RICHARD L. GREGG, COMMISSIONER OF THE PUBLIC DEBT

ACCOMPANIED BY:

DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT

MARCUS W. PAGE, DEPUTY FISCAL ASSISTANT SECRETARY

VAN ZECK, DEPUTY COMMISSIONER

KENNETH W. RATH, ASSISTANT COMMISSIONER, ADMINISTRATION

JOHN P. MITCHELL, DEPUTY DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT

U.S. SAVINGS BONDS DIVISION

STATEMENT OF JERROLD B. SPEERS, EXECUTIVE DIRECTOR

ACCOMPANIED BY:

W. LORN HARVEY, DEPUTY EXECUTIVE DIRECTOR

JAMES R. WYNN, DIRECTOR, PROGRAM SUPPORT

JAMES GIANFAGNA, DIRECTOR, MARKETING AND COMMUNICATIONS

REBECCA D. BROWN, FINANCIAL MANAGER

DAVID NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT

OPENING REMARKS

Senator DeConcini. The subcommittee will come to order. The ranking member, Senator Domenici, is at the White House in a meeting, and has asked us to go ahead without him.

Today the subcommittee will be taking testimony on the fiscal year 1991 budget request of the Bureau of the Public Debt and the Office of Personnel Management. We will begin with the Bureau of the Public Debt and the U.S. Savings Bonds Division.

The fiscal year 1991 budget request of the Bureau of the Public Debt totals \$175.1 million and 2,227 full-time positions. This amount reflects a decrease of \$20.2 million from the fiscal year 1990 enacted appropriation levels.

The main reason for the reduction is the fact that the administration is proposing legislation to establish a permanent indefinite account for reimbursement to the Federal Reserve Banks, which is expected to total \$80.3 million in fiscal year 1991. I guess someone at the Treasury finally decided to eliminate our ability to use these payments for other programs.

I intend to spend some time asking questions about that, because I do not know what we are going to do without you. [Laughter.]

PREPARED STATEMENT

Gentlemen, I welcome you. Mr. Gregg, we are glad to have you. Senator D'Amato is not here today, but we will insert his prepared statement at this point.

[The statement follows:]

STATEMENT OF SENATOR D'AMATO

Mr. Chairman, I welcome the opportunity today to have before us representatives from the Office of Personnel Management [OPM] and the Bureau of Public Debt along with the Bureau's Division of U.S. Savings Bonds.

The Office of Personnel Management administers the employment of over 3 million Federal employees. Federal employees in my own home State of New York total over 158,000 workers, approximately 5 percent of the Federal work force nationwide.

The issues of the Federal work force are numerous this year including issues of pay, health and retirement benefits. Congress must carefully consider the importance of maintaining a civil service system that treats Federal retirees and employees fairly.

Federal employees are on our frontlines. Today's high cost of living and the severe public-private pay differential are threatening the quality of our work force. I have heard from Federal employees in New York that recruitment and retention problems are on the increase. The OPM proposal to offer geographic differentials for high-cost areas including New York is a step in the right direction.

I look forward to hearing from OPM on all these issues.

The Bureau of Public Debt is responsible for administering the public debt. Total net interest on the public debt in fiscal year 1989 was \$170 billion. As a nation, we have got to reduce this burden. One way to reduce the cost of borrowing is through the sale of U.S. savings bonds.

It is estimated that for every billion dollars of bonds sold, the Government saves approximately \$70 million in borrowing costs. The Division of U.S. Savings Bonds, within the Bureau, must continue to look for innovative ways to encourage the sale, thus savings, of U.S. Savings Bonds.

I look forward to hearing from the Bureau on the issues before it.

Thank you, Mr. Chairman.

STATEMENT OF GERALD MURPHY

Senator DeCONCINI. Mr. Murphy, you may proceed. We will put your statements in the record, and you may summarize them for us, please.

Anybody else? Mr. Nummy, we know that you are here. We do not even need to look that way.

- Mr. NUMMY. You recognize me. That is right.

Senator DeCONCINI. We are going to give him an office over here, you know? [Laughter.]

You may proceed, Mr. Murphy.

Mr. MURPHY. Thank you, sir.

Mr. Chairman, I appreciate the opportunity to discuss the Bureau of the Public Debt's fiscal year 1991 resource requirements with you. I will be very brief.

I would just point to a couple of the major changes, and the key one you have already mentioned, which is the reduction linked to the Federal Reserve bank reimbursements, and the legislation the administration has now submitted that would propose a new permanent indefinite appropriation for that purpose.

The other major initiatives that are included in this request are in the nature of investments which will bring a return in the very near term.

The key ones are the regional delivery system, what we call RDS, which centralizes the function of issuing savings bonds in the 12 Federal Reserve banks. The other initiatives include modernizing our savings bond processing system, which is operated out of our Parkersburg office, and improving our public debt accounting system, which is a rather paper-based, labor-intensive system which we have been working on to improve, and is well under way. There is some funding to continue that effort as well.

At this point, Mr. Chairman, I would like to turn it over to Mr. Gregg, the Commissioner of the Public Debt, who will provide more detailed information on Public Debt's request.

PREPARED STATEMENT

Senator DeCONCINI. Thank you, Mr. Murphy. Your complete statement will be inserted in the record.

Mr. MURPHY. Thank you.

[The statement follows:]

STATEMENT OF GERALD MURPHY

INTRODUCTION

Mr. Chairman and members of the Committee, I appreciate this opportunity to discuss with you our fiscal year 1991 resource requirements for the Bureau of the Public Debt. The Public Debt's budget request for fiscal year 1991 will enable Public Debt to meet its responsibilities for administering the public debt, while improving customer service and the cost effectiveness of Public Debt's programs.

I would like to specifically note that the budget request proposes to shift reimbursement of the Federal Reserve Banks from the appropriation, "Administering the Public Debt" to a new permanent indefinite appropriation. Specific legislation to establish the new account will be proposed. This shift represents the largest dollar impact on Public Debt's fiscal year 1991 budget. The reduction in the Public Debt budget is directly linked to the funding to be derived from the new appropriation account.

Several initiatives included in the fiscal year 1991 budget are investments which will produce considerable savings in the near future. One of these programs is the Regional Delivery System [RDS], which centralizes the function of issuing savings bonds in 12 Federal Reserve banks. Other programs include ongoing efforts to modernize and enhance the savings bond processing system and implementation of a greatly improved public debt accounting system.

Mr. Richard L. Gregg, the Commissioner of the Public Debt, will provide more detailed information on the fiscal year 1991 request for the Bureau of the Public Debt.

STATEMENT OF RICHARD GREGG

Senator DeCONCINI. Mr. Gregg, you may proceed.

Mr. GREGG. I have a brief statement.

Our request provides funds for both the Bureau of the Public Debt and the U.S. Savings Bonds Division, and the latter is a separate organization and will be discussed separately.

FISCAL YEAR 1991 APPROPRIATION REQUEST

The total request for administering the public debt in fiscal year 1991 is \$175.1 million and 2,227 FTE positions. Of this total, the Bureau of the Public Debt request is \$154.7 million and 1,975 FTE positions. For Public Debt, this is a net decrease of \$20.2 million, and an increase of eight FTE positions over fiscal year 1990.

Our 1991 request includes a decrease of \$23.2 million related to the shift of funding from the appropriation to a new permanent indefinite appropriation for reimbursing Federal Reserve banks.

While Congress has consistently recognized that the work performed for us by the Reserve banks is essential, the amounts appropriated in recent years have been insufficient to cover the full costs of Federal Reserve bank services. When this occurs, the full cost of administering the public debt is not disclosed in the budget, and these shortfalls must be indirectly funded by reductions in the revenue remitted to Treasury by the Reserve banks.

To address this problem, we have submitted legislation to establish a permanent indefinite appropriation from which we can fully reimburse the Reserve banks. Regardless of the method that is used to pay the banks, we will continue to provide Congress with the information on full costs of services provided by the Reserve banks.

SAVINGS BONDS PROGRAM

Let me turn briefly to a couple of savings bond program issues.

In fiscal year 1991, Public Debt workload resulting from U.S. Savings Bonds is expected to decrease by 6.5 million pieces below anticipated levels for fiscal year 1990. Fewer pieces will be issued as a direct result of the elimination of the \$50 and \$75 payroll savings bonds, effective October 1, 1990.

These two denominations have not been available for new payroll enrollees since April 1, 1988, and effective October 1, 1990, they will not be available for any payroll bond purchaser.

We expect that most payroll savers will continue to participate in the program, and will trade up to the \$100 denomination which has a \$50 issue price. This change will provide a savings of \$3.4 million.

REGIONAL DELIVERY SYSTEM

The new regional delivery system [RDS] for savings bonds, that uses 12 regional issue centers as opposed to 45,000 financial institutions, is being phased in on a nationwide basis for over-the-counter savings bonds sales.

When fully implemented, RDS will significantly improve cash management and reduce operating costs of the savings bond program by \$6.4 million annually.

RDS has already begun to reduce our costs, and our submission reflects savings of \$3.9 million. However, 1991 is a year of continued significant project expansion and implementation, and our costs will slightly exceed our savings in this transition year. As a result, we are also requesting an increase of \$4.1 million and three FTE positions.

Mr. Chairman, Public Debt's budget request supports our policy objectives and will enable us to process anticipated workloads, and continue to provide improved service to investors and undertake important system improvements.

That concludes my statement.

PREPARED STATEMENTS

Senator DeCONCINI. Thank you, Mr. Gregg. We will insert your complete statement in the record along with the statement of Mr. Speers.

[The statements follow:]

STATEMENT OF RICHARD L. GREGG

INTRODUCTION

Mr. Chairman and members of the Committee, I appreciate this opportunity to discuss with you our fiscal year 1991 appropriation request for "Administering the Public Debt."

The request provides funds for both the Bureau of the Public Debt and the U.S. Savings Bonds Division. The latter is a separate organization responsible for promoting the sale of savings bonds and will be discussed separately.

FISCAL YEAR 1991 APPROPRIATION REQUEST

The total request for "Administering the Public Debt" in fiscal year 1991 is \$175.1 million and 2,227 FTE positions. Of this total, the Bureau of the Public Debt request is \$154.7 million and 1,975 FTE positions. For Public Debt, this is a net decrease of \$20.2 million and an increase of 8 FTE positions over the fiscal year 1990 level.

For the most part, the decrease in funding requested is due to the proposed shift of funds for reimbursement of Federal Reserve Banks from "Administering the Public Debt" to a permanent indefinite appropriation. Legislation is to be proposed for this purpose. The small increase in FTE is to support systems development efforts and implementation of a new method of savings bond distribution.

FEDERAL RESERVE REIMBURSEMENT

Our 1991 request includes a decrease of \$23.2 million related to the shift of funding from this appropriation to a new permanent indefinite appropriation which would fully fund the cost of fiscal agent activities performed on Public Debt's behalf by the Federal Reserve banks.

Congress has consistently recognized that the work performed by the Reserve banks is essential in administering the public debt. However, in recent years, the amounts appropriated have been insufficient to cover the full costs of FRB services and the reimbursement shortfall has been increasing. When this occurs, the full cost of administering the public debt is not disclosed in the budget and these shortfalls must be indirectly funded by reductions in the revenue remitted to Treasury by the Reserve banks.

To address this problem, we will propose legislation to establish a permanent indefinite appropriation from which we can fully reimburse the Federal Reserve banks. Regardless of the method by which the banks are reimbursed, the Bureau of the Public Debt will continue to provide the Congress with information on the full costs of services provided to us by the Reserve banks.

SAVINGS BONDS PROGRAM

In fiscal year 1991, Public Debt workload resulting from the sale of United States Savings Bonds is expected to decrease by 6.5 million pieces below anticipated levels for fiscal year 1990. This four percent decrease in pieces to be sold will actually occur during a period of program growth and generally increased sales. Fewer pieces will be issued, however, as a direct result of the elimination of \$50 and \$75 payroll bonds effective October 1, 1990. These two denominations have not been available for new payroll enrollees since April 1, 1988, and effective October 1, they will not be available to any payroll bond purchaser. Purchasers can continue to participate in the savings bond program with no increase in their deductions. We expect that most payroll savers will continue to participate in the program and will "trade up" to the \$100 denomination which has a \$50 issue price. This change will provide a savings of \$3.4 million.

Savings bond redemptions are expected to increase moderately in 1991 to a level of 69 million pieces. \$3.2 million is needed to reimburse financial institutions for their services in processing this additional volume.

REGIONAL DELIVERY SYSTEM

The new Regional Delivery System (RDS) for savings bonds, that uses 12 regional issue centers as opposed to 45,000 financial institutions, is being phased in on a nationwide basis for over-the-counter savings bonds sales. One-half of the potential agents will be participating in RDS by the end of fiscal year 1991, seventy-five percent by the end of fiscal year 1992, and implementation will be complete in fiscal year 1993. RDS will reduce costs, accelerate the receipt of funds into the Treasury, and significantly reduce the operational burden for financial institutions. When fully implemented, RDS will significantly improve cash management and reduce operating costs of the Savings Bond program by \$6.4 million annually. RDS has already begun to reduce our costs and our submission reflects savings of \$3.9 million. However, 1991 is a year of continued significant project expansion and our implementation costs will slightly exceed our savings in this transition year. As a result, we are also requesting an increase of \$4.1 million and 3 FTE positions.

PROJECT SEAS

The Series E/EE savings bond automation initiative (SEAS) is entering its second year of development. This major effort will replace a computer processing system which is essentially 30 years old and will significantly update and streamline the operational systems used to account for savings bonds. Our budget request includes an increase of \$231,000 and 5 FTE to continue this important systems development project.

PUBLIC DEBT ACCOUNTING

Substantial improvement in Public Debt's accounting control will be realized through the Public Debt Accounting and Reporting System (PARS). PARS will account for and balance public debt securities and financial transactions, produce accurate and more timely information, in addition to strengthening accounting controls. The budget request includes \$235,000 and 6 overtime staff years to support the implementation of PARS in 1991.

GOVERNMENT LOSSES IN SHIPMENT ACT

Public Debt has submitted a legislative proposal for a permanent indefinite appropriation to fund the Government Losses in Shipment Act (GLISA) Fund. This "self-insurance" Fund is used for the replacement of valuables such as coins, currency, securities, certain losses incurred by the Postal Service, and losses in connection with the redemption of Savings Bonds.

Given the basic intent of the Fund and since the size, number and pattern of losses and recovery for any one year are nearly impossible to predict, the establishment of a permanent indefinite appropriation is the most effective approach to accomplishing the purposes of the Act without interruption.

Because no separate appropriation request is being submitted, the processing of GLISA claims in fiscal year 1991 is contingent upon the passing of this proposed legislation.

Mr. Chairman, Public Debt's budget request supports our policy objectives and will enable us to effectively carry out our mission.

The amount requested will permit Public Debt to process anticipated workloads, to continue to improve service to investors, and to undertake important systems improvements.

The proposed legislation for the permanent indefinite appropriation will allow Public Debt to pay Federal Reserve banks for their services and pay valid Government Losses In Shipment claims timely.

Thank you for consideration of our request. We will be glad to answer any questions that you and the members of your Committee may have.

STATEMENT OF JERROLD B. SPEERS

Mr. Chairman and members of the Committee, I am pleased to be here today to present the fiscal year 1991 appropriation request of the United States Savings Bonds Division. Accompanying me today are Deputy Executive Director Lorn Harvey; Director of Program Support James Wynn; Director of Marketing and Communications James Gianfagna; and our Financial Manager Rebecca Brown.

The cornerstone of the U.S. Savings Bonds Division is its mission to increase the sale and retention of savings bonds. The key to accomplishing this mission is our ability to effectively motivate consumers and stimulate growth in savings bonds sales through promotional campaigns and advertising programs.

It is estimated that over the life of the bonds, the government saves approximately \$70 million in present value borrowing costs for every billion dollars of bonds sold. In addition, the Savings Bonds Program provides, at competitive rates, a safe and effective means for millions of Americans to save, and broadens public ownership of the National debt.

The Savings Bonds Program is fortunate because much of its success is due to volunteer support. Active national and local volunteer committees perform vital and outstanding services for the Division in the fields of banking, media, labor and industry. The efforts of the Division's field personnel are multiplied through the directed activities of our volunteers.

The Division promotes sales in both the payroll savings and over-the-counter markets. Fiscal year 1989 sales exceeded \$7.7 billion and the total amount of Bonds outstanding reached \$115.7 billion, the highest in the history of the Bond program. Currently over \$118 billion of savings bonds are held by the American public, another historical high.

For fiscal year 1991, the Division is requesting a total budget of \$20,479,000 and 252 FTE positions. This is an increase of \$1,475,000 from the resource level provided for fiscal year 1990 with no increase in FTE positions. This request includes a \$900,000 program increase and \$769,000 to maintain current levels, offset by \$194,000 in program reductions for absorption of pay and other costs.

Savings bonds sold in fiscal year 1989 reduced borrowing costs by \$540 million in present value terms. This was 28 times more than our fiscal year 1989 appropriation request of \$19 million. In fiscal year 1991, we expect dollar sales to be \$8.9 billion, resulting in present value savings of \$623 million.

In the last few years, the Division has taken several new marketing approaches in diversifying its promotional activities. During fiscal year 1989 we worked with the Bureau of Public Debt to implement the Regional Delivery System (RDS) for the entire Cleveland Federal Reserve District. Under that system, Bonds purchased at banks are issued and mailed to purchasers by the Federal Reserve, rather than by local banks. The RDS system is planned to be in place nationwide by the end of fiscal year 1993. We also took initial steps in preparing for the January 1, 1990, introduction of the Education Savings Bond Program which was enacted by the Congress in fiscal year 1989. Under certain circumstances, it permits the interest earned on Bonds issued after that date to be free of Federal taxes when applied to the cost of a higher education. For the first time, such Bonds would be entirely free of all taxes—Federal, State, and local. This is a major and important change in savings bonds benefits, and will require extensive public information and education to encourage savings and help individuals pay for the costs of higher education.

The fiscal year 1991 resource requirements include funds to continue these initiatives as well as fund a field sales force to carry out promotional activities, and an advertising program to increase public awareness through the development and distribution of public service advertising materials. Our objectives will be to continue to increase both over-the-counter and payroll savings sales, and to make the most cost effective use of existing staff and volunteer resources.

We will encourage more publications and broadcast stations to use public service advertising to reinforce public awareness of the benefits and features of savings bonds.

Mr. Chairman and members of the Committee, this concludes my statement. I will be happy to respond to any questions you or members of the committee may have.

FEDERAL RESERVE REIMBURSEMENT

Senator DeCONCINI. Mr. Gregg, let me get right to some of the areas of concern. I am going to submit some of these questions so you will have some time to answer.

As to the reimbursement to the Federal Reserve banks in fiscal year 1991, as you point out in your statement, you are requesting no funds in your budget for reimbursement to the Federal Reserve banks; instead, you are proposing the legislation you mentioned that was sent up.

Has it come to the Congress and has it been referred to the committees yet? I have not seen it.

Mr. GREGG. It was just sent up yesterday, Mr. Chairman.

Senator DeCONCINI. I see.

Mr. GREGG. I don't believe it has been referred to any committees yet.

Senator DeCONCINI. OK. So I think maybe I will just ask you to give us a summary of it later for the record. Maybe it is very clear and very simple—maybe it is a one-page bill, I do not know, but I would appreciate it if you could give us a summary of it.

[The information follows:]

A copy of the draft bill, the "Fiscal Agent Reimbursement Act of 1990" is attached along with the letter from Treasury's General Counsel transmitting and summarizing the bill to the Speaker of the House.

LETTER FROM EDITH E. HOLIDAY, GENERAL COUNSEL, DEPARTMENT OF THE TREASURY

MARCH 27, 1990.

Hon. THOMAS S. FOLEY,
Speaker of the House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: There is transmitted herewith a draft bill, the "Fiscal Agent Reimbursement Act of 1990." Also enclosed is a sectional analysis.

The draft bill would amend title 31 of the United States Code to provide a permanent, indefinite appropriation for reimbursing Federal Reserve Banks for fiscal agent services provided to the Department of the Treasury relating to administering the public debt.

The purpose of the bill is to provide full funding for activities performed by Federal Reserve Banks, in their capacity as fiscal agents of the Treasury, in support of administering the public debt. The bill also would result in full disclosure in the Federal spending totals of the costs of performing these functions. It would not have any effect on the budget deficit. Furthermore, the proposed amendment would assure a constructive and businesslike relationship between the Treasury and the Federal Reserve Banks acting as fiscal agents.

It would be appreciated if you would lay the draft bill before the House. An identical bill has been transmitted to the President of the Senate.

The Office of Management and Budget has advised that from the standpoint of the Administration's program there is no objection to the submission of this proposal to the Congress.

Sincerely,

EDITH E. HOLIDAY,
General Counsel.

A B I L I

To amend title 31 of the United States Code to provide a permanent, indefinite appropriation for the reimbursement of Federal Reserve Banks for services performed as fiscal agents of the United States in support of administering the public debt.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That
this Act may be cited as the "Fiscal Agent Reimbursement Act of 1990."

SEC. 2. Section 3302 of title 31, United States Code, is amended by adding at the end thereof the following new subsection:

"(g) Such sums as are necessary are appropriated to reimburse Federal Reserve Banks for services required by the Secretary to be performed by such Banks as fiscal agents of the United States in support of administering the public debt."

ANALYSIS

Section 1 provides a short title for the bill.

Section 2 would amend section 3302 of title 31, United States Code, by adding a new subsection (g) that would provide a permanent, indefinite appropriation for the reimbursement of Federal Reserve Banks (Banks) for services required by the Secretary of the Treasury to be performed by the Banks as fiscal agents of the United States in support of administering the public debt.

Section 15 of the Federal Reserve Act (38 Stat. 265, as amended, 12 U.S.C. 391) authorizes the Secretary of the Treasury (Secretary) to require the Banks to act as fiscal agents of the United States. Section 3302(f) of title 31, United States Code,

provides, in part, that when authorized by the Secretary, an agent of the Government performing fiscal agent services may be allowed necessary expenses to perform those services. This provision thus authorizes an appropriation to be made. The annual appropriation requests submitted for administering the public debt have historically included amounts to reimburse the Banks for services performed as fiscal agents. In recent years, the amounts requested or approved, however, have been insufficient to cover the full costs of such services. Since the cost of services requested and provided was, in fact, in excess of appropriated funds, the complete cost of administering the public debt has not been reflected in Federal spending totals. The proposed amendment would provide for full funding and accounting of these costs.

The permanent, indefinite appropriation would be used for those regular, ongoing activities relating to administering the public debt that are directed by the Secretary. Annual appropriations will normally be requested to reimburse the Federal Reserve Banks for developmental costs. However, the Secretary retains the authority, otherwise provided by law, to direct the Banks to act as fiscal agents even if appropriated funds are not available. Examples of fiscal agent activities now performed by the Banks include:

- conducting auctions, issuing securities, conducting transactions, and paying interest on and redeeming marketable Treasury bills, notes, and bonds;
- maintaining bond stock, qualifying and instructing issuing and paying agents, receiving applications for issue, issuing bonds, conducting transactions, and redeeming United States Savings Bonds;

- accounting for and reporting on transactions in Treasury securities and on public debt receipts and expenditures; and
- implementing and maintaining systems in support of these activities.

The proposed appropriation would not be used to pay for salaries of officers and employees of the Government or to procure services or equipment to be used only within internal Treasury offices or operations. It would not be used to cover expenses incurred on behalf of other agencies utilizing Federal Reserve services. Moreover, the appropriation would not be used for expenses for functions to the extent that they are provided for in other appropriations or for purposes not otherwise provided by law.

Several controls would apply to the use of this appropriation authority. First, these funds would be subject to Office of Management and Budget apportionment control, as required by 31 U.S.C. 1513. Second, the General Accounting Office has authority to audit and report to the Congress both Treasury and Federal Reserve Bank activities relating to fiscal agent services as provided in 31 U.S.C. 712 and 714. Third, the Inspector General of the Department of the Treasury also has authority to audit the expenditures and activities and to report to the Congress under the Inspector General Act of 1978 (92 Stat. 1101, as amended, 5 U.S.C. App. 3). In addition, the Secretary of the Treasury would report annually to the Congress on the uses of the appropriation.

Fully funding Federal Reserve Bank reimbursements allows for the cost of administering the public debt to be more accurately reflected in Federal spending totals without increasing the net budget deficit. Each week, the Federal Reserve System deposits its net earnings (total receipts minus total expenses) into

Treasury. Any shortfall in Federal Reserve Bank reimbursements reduces Federal Reserve receipts but not expenses, which reduces the amount of net earnings returned to Treasury. Additional payments for Federal Reserve Bank fiscal agent services resulting from this legislation will be offset by increased receipts into the Treasury account, with no net change to the deficit.

EFFECTS OF REDUCTION ON SERVICE

Senator DeCONCINI. In fiscal year 1990, we reduced your appropriation by \$50.4 million specifically in your reimbursement to the Federal Reserve bank.

First of all, has this reduction had any impact on the service provided to the Bureau from the bank? And, second, is the legislative proposal for fiscal year 1991 a result in any way of the discussions you have had over the past few months with your counterparts at the Federal Reserve bank?

Mr. GREGG. I think the level of the service that we are receiving from the banks this fiscal year really hasn't changed any, even though—you may know—we have a \$50 million shortfall. It is an area of concern to them, as we have discussed in recent years, but I think when it gets right down to the handling of the securities and the operations that—

Senator DeCONCINI. They go ahead and provide it for you?

Mr. GREGG. Yes.

Senator DeCONCINI. If your legislation does not pass, will that cause any deterioration of the service that you are getting from the bank? Is it more of a housekeeping thing that we need to do?

Mr. GREGG. Well, I think it is more than housekeeping. They feel, and we feel, that it is important to have the work that they do for us approved through the channels, and that there is a full disclosure of that.

We feel that within Public Debt and within Treasury, and I know the Federal Reserve banks certainly feel that they want the record to show what moneys are being spent for these purposes and, in fact, are being spent under authority of law rather than through the revenues that come into Treasury.

Senator DeCONCINI. I can appreciate that.

Let me turn to a couple of the programmatic increases. In fiscal 1991, you are proposing programmatic enhancements totaling \$5,486,000, and inflationary and workload increases totaling \$7.6 million. These increases are being partially offset by nonrecurring and other savings totaling \$4.3 million.

First of all, can you provide the committee with a prioritized list of programmatic increases, and tell us what the impact would be in your overall operational ability if the committee was to fully restore all the absorptions associated with pay, provide the adjustments necessary to maintain current levels, and direct you to forego any new initiatives?

If you want to provide that for us, you can. I realize that's a big question.

Mr. GREGG. I will be happy to do so.

[The information follows:]

The Bureau of the Public Debt's fiscal year 1991 appropriation request is for \$154.7 million, which represents a net decrease of \$20.2 million from our fiscal year 1990 appropriation. Our fiscal year 1991 request includes a decrease of \$23.3 million related to the shift of funding from this appropriation to a new permanent indefinite appropriation for reimbursing Federal Reserve Banks. Even if the fiscal year 1991 request were to include this \$23.2 million, it would total \$177.9 million, which represents only a \$3 million or 1.7 percent increase over our fiscal year 1990 appropriation. This increase of \$3 million does not even cover this \$3.2 million necessary to maintain current levels [MCL's] in fiscal year 1991. Public Debt's budget request supports those policy objectives that are absolutely essential, plus the costs necessary to fund the requested program initiatives. These initiatives allow Public Debt to effectively carry out its mission and to undertake important system improvements that keep our funding requests at absolute minimum levels. The following program initiatives are listed in priority order:

1. *Savings Bond Workload*, \$3,210,000.—This increase is primarily needed to reimburse Fiscal Agents for an increased volume of redeemed savings bonds.

2. *Regional Delivery System [RDS]*, \$4,120,000.—This increase is necessary to support the implementation of this new delivery system for over-the-counter savings bond sales. A savings of \$3.9 million will be realized in fiscal year 1991 because of reduced processing costs that result from the impact of RDS in streamlining the Savings Bond Program. These savings would not be realized without funding the implementation of RDS. The difference in the program initiative and the resultant savings is a net \$200,000 increase.

3. *Series E/EE Savings Bond Automation [SEAS]*, \$231,000.—This increase will fund second year costs necessary to continue designing this system. This upgrade to an outdated, 30 year old system will allow all of the potential benefits/savings of projects such as RDS to be fully realized.

4. *Public Debt Accounting and Reporting System [PARS]*, \$235,000.—This request is critical to the successful implementation of a fully integrated system that will be in compliance with General Accounting Office accounting principles and standards.

5. *A-76 Adjustment*, \$485,000.—This represents a restoration of the fiscal year 1990 reduction.

Most of these initiatives are being funded through productivity increases, non-recurring items (\$3,718,000), and program reductions (\$830,000).

Public Debt's budget request, without the funding for reimbursement to the Federal Reserve System, allows us to process the work we are responsible for. This request is at a level well below what's generally allowed for MCL's.

ABSORPTION OF PAY RAISES

Senator DECONCINI. We are faced here with absorption of the pay raises, as you can understand, and also very well intended and some very good ideas in a number of agencies, such as you have made here, and we are going to have to make a decision here, whether to make you absorb again, or give you the money for it, and maybe not give you all the enhancements.

Mr. GREGG. I would say, Mr. Chairman, that we will provide a complete list for the record, but we have, as you know, a decrease this year from our previous years.

Senator DECONCINI. Yes.

Mr. GREGG. And even without considering the Federal Reserve bank reduction, our budget is basically flat. We have very little increase for new initiatives, and one of our major new initiatives, the RDS, is essentially paying for itself in fiscal year 1991.

We have other program changes, such as the elimination of the \$50 and \$75 bonds, which will reduce our costs in 1991 and years thereafter by \$3.4 million.

So, apart from the items for maintaining current levels, in the inflationary changes, we have virtually a flat, and actually reduced budget for 1991.

REGIONAL DELIVERY SYSTEM

Senator DECONCINI. You are requesting an increase of \$4.1 million and three positions for continued implementation of the regional delivery system. You propose to change the way in which—this is the one that is an ongoing project, I guess, in which the savings bonds are issued to customers, and your justification states that this system will be fully implemented on a nationwide basis by the end of 1992.

Your budget assumes \$3.9 million savings associated with this project in fiscal year 1991 due to the decrease in the fees you would have to pay your issuing agents by the end of fiscal year 1991. Which Federal Reserve districts will be operating on the new system?

Mr. GREGG. I can provide that for you for the record. We will have 50 percent of the volume in RDS by the end of fiscal year 1991, and by the end of fiscal year 1992, we will have 75 percent, and actually by the end of fiscal year 1993, we will have full implementation.

By the end of this year, we will have 26 States participating in RDS.

[The information follows:]

The new Regional Delivery System [RDS] for savings bonds is being phased in on a nationwide basis for over-the-counter [OTC] savings bond sales. The 12 Federal Reserve Banks [FRB] districts will each become regional issue centers, as opposed to 45,000 financial institutions. By the end of fiscal year 1990, 7 Federal Reserve districts will have all or some portion of their respective States and localities issuing Saving Bonds through RDS. This will represent approximately 35 percent of all OTC sales. At the end of fiscal year 1991, all 12 districts will have at least begun implementing RDS, with RDS issued bonds accounting for approximately 50 percent of OTC sales. Eleven FRB's will have RDS fully in place by the end of fiscal year 1992, accounting for 75 percent of all OTC sales. One hundred percent of OTC sales will be issued through RDS when the Federal Reserve Bank of New York completes implementation at the end of fiscal year 1993.

EFFECT OF REGIONAL DELIVERY ON SALES VOLUME

Senator DECONCINI. Will you?

Mr. GREGG. Many of the districts that are involved—I think we have three Federal Reserve districts that now have started to roll this out. They are starting with some of the smaller States to kind of get a feel for it, and then move to the larger populated States after that.

Senator DECONCINI. What affect so far has this change had on the amount of savings bonds issued? Have you seen a reduction in sale volumes as a direct result of your regional delivery?

Mr. GREGG. Fortunately we haven't. The sales figures are staying very steady, and that is something we have been watching very closely. So that is the good news, I think.

In 1989, we issued 1.5 million bonds through RDS, and we have had, during that time, 50 complaints from individuals. I think that is going very well. They are getting their bonds within the time-frame that we said they would.

And probably most importantly, the financial agents around the country, 45,000 agents that service the customers, think that this is an extremely good program and something that was badly needed, because of their costs in maintaining the stock on hand, and the time spent with individual investors. So they are very happy with this program and very supportive.

U.S. SAVINGS BONDS DIVISION

Senator DeCONCINI. Let me ask you a couple of questions about your bond program.

Your fiscal year 1991 budget totals \$20,479,000 and 252 full-time positions. This amount represents an increase of \$1,475,000 from the fiscal year 1990 enacted level. Program increases total \$900,000, while adjustments to maintain current levels total \$769,000. Programmatic reductions to offset increased 1991 pay costs total \$194,000.

What impact will the absorption of \$706,000 have on your ability to properly market and issue savings bonds in fiscal year 1991?

Mr. GREGG. Mr. Chairman, the Savings Bonds Division representatives, I think, are here. And I do not know if you want to answer at this point or later on.

Senator DeCONCINI. Sure if you have somebody that can get back to us on that. All eyes are on—do you want to come up and join us? You are?

Mr. SPEERS. Jerry Speers.

Senator DeCONCINI. Jerry, welcome.

Mr. SPEERS. Thank you, Senator.

Senator DeCONCINI. Did you hear the question?

Mr. SPEERS. I am sorry, sir, I did not.

Senator DeCONCINI. Your fiscal year 1991 budget totals \$20.4 million and 252 full-time positions. This amount represents an increase of \$1.4 million roughly, almost \$1.5 million, from the fiscal year 1990 level.

Program increases total \$900,000, while adjustments to maintain current levels total \$769,000. Programmatic reductions to offset increased 1991 pay costs total \$194,000.

My question is, what impact will the absorption of approximately \$700,000 have on your ability to properly market and issue the savings bonds in fiscal year 1991?

ABSORPTIONS

Mr. SPEERS. I think it would seriously impact upon our ability, Mr. Chairman, because the \$900,000 is a request for printing and distributing a brochure dealing specifically with the education bond program. Congress enacted this program in 1988, and it went into effect as of January 1 of this year.

We have been able to absorb enough out of our past budget to print 50 million brochures this year, and we are distributing brochures at this point. But we would not be able to absorb an additional amount to print additional brochures. It would have a very serious impact.

Senator DeCONCINI. What other cuts would you have to take? Travel, equipment, or what? Other services?

Mr. SPEERS. Well, the budget for the Savings Bonds Division has very little room for maneuvering. The bulk of the budget is allocated to salaries, travel for bond representatives in the field, and the only room that we have is in the budget for promotional materials. That is where we would have to cut back.

Senator DeCONCINI. How have you been doing in the past years? What is the cumulative impact of pay and other absorptions on your overall operations over the past several years?

Mr. SPEERS. We have really been cutting back a good deal, in both FTE's and in some of the promotional materials.

Senator DeCONCINI. So your main cuts have been in promotional materials, but you have been able to maintain the volume, however. Is it fair to say that you would have a substantial increase, do you think, if you had not had to absorb pay costs and live with sequestration or not?

Mr. SPEERS. Basically, we have been cutting back in promotional materials that can be used over several years, not in the promotional brochures that would be handed out in each campaign.

We have a lot of materials, for example, that explain savings bonds, that have not been updated in a number of years. We have concentrated on printing and distributing materials that would be used to promote the sale of savings bonds in campaigns and have had to cut back on updating some of the supporting materials.

FISCAL YEAR 1991 SALES OUTLOOK

Senator DeCONCINI. What do you see for 1991 bond sales?

Mr. SPEERS. We are seeing a great increase in the interest in bonds through the Education Bond Program and the promotion of that program, and I think that sales will be certainly as strong as in the past, and perhaps even greater.

Senator DeCONCINI. OK. Mr. Gregg, I'll submit the balance of my questions, and yield to the Senator from Maryland, Senator MIKULSKI.

Do you have any questions or opening statement?

SAVINGS BONDS MARKET

Senator MIKULSKI. Mr. Chairman, I don't have an opening statement.

I would just like to compliment Mr. Speers and his team on the efforts they are making in the savings and loan—oh, I guess that is not what I mean. [Laughter.]

But that is on my mind. On the savings bond—because it really is American. Americans buy these savings bonds, and a lot of the buying is really because of the way you sell them, they are really mini-bonds. Those \$25 savings bonds are almost like mini T-bills.

And my original question is about the demand, No. 1, who is buying the savings bonds? Is it primarily through payroll deduction?

And, No. 2, the education legislation linkage that we passed, and the impact?

Could you elaborate a little bit on Senator DeConcini's question? Who essentially is your market? I know all of America is, but—

Mr. SPEERS. Well, it may sound like a broad statement, but we have found through surveys that purchasers really are from all income levels and all ages and the professions as well as wage earners.

In terms of the breakdown in payroll savings and over the counter, approximately 70 percent of the pieces of bonds are bought through the payroll savings plans and 30 percent over the counter.

With respect to the amounts, it is just the opposite. Approximately 60 percent is purchased over the counter and 40 percent through payroll savings.

EDUCATION BOND PROGRAM

Senator MIKULSKI. What about the education, now that we have the education interest?

Mr. SPEERS. Well, we have seen a tremendous increase in interest in savings bonds. We have had a great number of articles written about the education savings bonds. In fact, Jane Bryant Quinn, in one of her columns, suggested that the double E savings bond for education and for safety is simply impossible to beat.

So we have had a lot of articles written about it. We have a program promoting the bonds now. In fact, we have a couple of brochures that I have for you.

Senator MIKULSKI. Actually I was going to ask you that because, as we move around and do our outreach, Mr. Speers, one of the questions that my office receives in terms of casework is, how can I help my kids or parents, and how am I going to fund my education? What can I do to help?

This is, probably next to the Social Security and veterans questions, among the top three. We would like to be able to have the literature to promote sales. When you are giving a speech and want to be able to just say this.

What is the interest that the double E bonds are paying now?

MARKET-BASED INTEREST

Mr. SPEERS. The present 6-month interest is 6.98 percent, but that is a variable rate. They change every May 1 and November 1, based upon the preceding 5 years marketable securities.

And if you hold the bonds for 5 years, you have the advantage of having that variable rate. It also has a 6-percent guaranteed floor, 6-percent minimum. So, if the markets go down below that you are guaranteed at least the 6 percent.

SAVINGS BONDS AND TAXES

Senator MIKULSKI. And those are tax free, Federal tax free?

Mr. SPEERS. The normal bonds are taxable.

Senator MIKULSKI. Yes; but the education bond?

Mr. SPEERS. The bonds are always free from the State and local taxes, but they are normally subject to Federal taxation.

If they are used for education, however, subject to the income restrictions on the program, then they can be federally tax free as well.

Senator MIKULSKI. What is the income restriction?

Mr. SPEERS. For single individuals under \$40,000, they can be completely tax free. Up to \$55,000, there is a phaseout. Over \$55,000 they are not tax free. For joint income the levels are \$60,000 and \$90,000.

Senator MIKULSKI. That answers my question.

You know, it is the middle-class who are most likely to save, because the poor live by crisis and their incomes are so skimpy, saving would be a desirable luxury.

But it is my belief that we have to make sure that we reward the values in the middle-class, and \$60,000 of combined income today is not a lot of money, particularly when you think you are going to be tuition poor. So we thank you for that.

My last question is, there are a lot of ideas floating around about things like drug bonds, space bonds. I myself, as the chair of the NASA subcommittee, am looking for sustainable revenue.

Could you comment on those? When we float these ideas, does it drive you up the wall, or do you think it would cause competition or confusion? [Laughter.]

REACTION TO NEW IDEAS

When you are the man on the line here, I wonder when we do those things if you would like to have our 911 emergency number. [Laughter.]

Mr. SPEERS. Well, Senator, I would comment basically on the program. It is a complicated program. If you look at all the restrictions and the requirements with respect to savings bonds, it is very difficult to easily explain the program to the American public. And the more complications that are put on the program, I think the more difficult it becomes to explain.

The education bond, making bonds tax free for education, I think, has been one of the greatest innovations for the Savings Bonds Program that we have seen from a marketing standpoint. It has helped in our efforts to sell the savings bonds. But the restrictions and the qualifications that are put on the program make it very difficult to explain fully to the people.

Senator MIKULSKI. You mean our education one, that it is too complicated?

Mr. SPEERS. It is very complicated. An individual has to be 24 years of age or older when they purchase the bond; the bond has to be in the name of the parent—it cannot be in the name of the child, which complicates it for grandparents that may want to purchase education bonds for grandchildren. And the income restrictions are as I stated to you.

Senator MIKULSKI. Well, Mr. Speers, not to take the time of the subcommittee, let me say this. I sit on Senator Kennedy's Committee on Education of Human Resources.

I would like you to send me, and if the chairman would like it for the record, a critique of the program along these lines. I don't mean criticisms or anatomies or autopsies, because if we revisit it, which I would hope we would, make it almost like a minibond—that is functioning almost like a zero coupon bond. Then I could buy for my niece, Maria, and put it in her name.

It is, you know, these kinds of things, if you think it feasible, we could work on, because the impact on the Treasury would be the same.

Mr. SPEERS. Well, I believe the restrictions were put on it because of the impact on the revenue side. And, of course, I am speaking simply from a marketing point of view, that it is more of a challenge to market the more restrictions are placed on it.

But I think the restrictions were discussed and put on the program because of the revenue considerations.

MARKETING TECHNIQUES

Senator MIKULSKI. Have you used any other Federal agency, like IRS, to mail out a description of your savings bond?

Mr. SPEERS. Yes; we actually are mailing an IRS stuffer—an order form—with refund checks through the IRS. We have also asked the Social Security Administration for some help in giving information on the education bond when they issue a new Social Security card.

Basically we are very interested in reaching younger people, or parents of young children, newborns, so that the parents can start saving early for the college education of their children.

We have also asked the Congress to help in this, Senator, in that we have created a couple of news articles which were sent to each Member of Congress. We have asked that they include this information in newsletters going out to their constituents.

Senator MIKULSKI. Excellent. Would you send that to me?

Mr. SPEERS. Yes; we certainly will.

Senator MIKULSKI. Mr. Chairman, we held hearings on some of the independent consumers. You know I have the independent agencies—and they have used the IRS for broad consumer information.

The response was just phenomenal, because people get it, and if it is simple and clear. They then have tremendous followup, and particularly if it is targeted, as you said, to the IRS, not to turn them into junk mail. It is something that then goes directly to savings as a tax deduction, or a tax break component.

So obviously you are working very hard at marketing your program.

Mr. SPEERS. Thank you, Senator.

Senator MIKULSKI. Thank you.

SUBMITTED QUESTIONS

Senator DeCONCINI. Thank you very much, Mr. Speers. This has been very helpful. We will submit the balance of our questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

REGIONAL DELIVERY SYSTEM (RDS)

Question: Last year when you testified before the Committee on this project, you stated that once fully implemented, the Regional Delivery System would achieve annual savings of approximately \$12 million. Your 1991 justification now states that expected savings will total \$6.4 million. How do you reconcile the difference from the estimate originally given the committee?

Answer: When fully implemented, the Regional Delivery System (RDS) is expected to save \$6.4 million in appropriated Program administration costs-- i.e., Public Debt personnel, Federal Reserve Bank reimbursements, issuing agent fees, postage and printing. The \$12 million cited in earlier testimony is not related to appropriated funds. It is attributable in part to cash management benefits brought about by the accelerated remittance of Series EE bond sales proceeds.

Question: What will be the projected Fiscal Year 1992 savings associated with this project?

Answer: In Fiscal Year 1992, we expect that 75 percent of Series EE bonds sold over-the-counter will be issued via RDS. However we expect that dollar savings in Public Debt's budget will be largely offset by start-up costs through most of the implementation period.

ELIMINATION OF \$50/\$75 PAYROLL BONDS

Question: You are also showing savings of \$3.352 million associated with the elimination of the \$50 and \$75 payroll savings bonds. How was this savings arrived at and what will be the impact on your FY 91 activities if the savings are not fully realized?

Answer: We estimate that 90% of the dollar volume of \$50/\$75 payroll sales that would have occurred without elimination will be used to purchase \$100 bonds. It is assumed that the remaining 10% of the dollar volume will be lost from the Savings Bond Program. Given these assumptions, it was projected that 36 million \$50/\$75 payroll pieces with a dollar value of \$963 million would have been sold in FY 91 without elimination and that 90% of this dollar volume will be converted into 17

million new \$100 pieces. The projected 19 million reduction in payroll pieces as a result of \$50/\$75 elimination is expected to produce savings of \$3.352 million in FY 91. These savings will be fully realized since \$50/\$75 elimination takes effect at the beginning of FY 91 and issues will be monitored to ensure agent compliance.

Question: Why are there no FTE savings associated with the elimination of these payroll savings bonds?

Answer: The savings associated with elimination of \$50/\$75 payroll bonds are primarily attributable to issuing agent fees, postage and envelopes. There is not expected to be any noticeable effect on Savings Bond Operations Office (SBOO) FTE since over 75% of payroll issues are reported on magnetic tape and such issues require little manual processing by SBOO personnel. Most of the labor-intensive work associated with payroll issues-on-tape is performed by agents and employers that produce the record of issue.

WORKLOAD

Question: Your budget includes an increase of \$3.210 million in FY 91 for a 7 million piece workload increase. Can you please explain in greater detail the basis for this workload projection?

Answer: Redemptions are expected to increase by 7 million pieces partially as a result of the increased sales in recent years and bondowners redeeming savings bonds held for more than five years to take advantage of the variable interest rate. Redeemed bonds first become eligible to receive the variable rate in November 1987--providing that they are held at least five years.

SERIES E/EE SAVINGS BOND AUTOMATION (SEAS)

In fiscal year 1991 you are requesting an increase of \$231,000 and 5 positions to fund the second year costs of a new Series E/EE bond system. Last year you stated that it would take 5-7 years to fully implement this redesign change and that total cost estimates were in the range of \$21 - \$25 million.

Question: Was any of the \$1.06 million provided for this project in FY 90 diverted to cover other increased costs? If so, how much?

Answer: It is expected that some contract money will be available for other expenses during FY 1990. The amount is uncertain and relates to a slight shift in timing on letting these contracts. It is not expected to affect future contracting requirements.

Question: What are your projections on the length of time it will take and the total costs needed to fully implement this project?

Answer: The cost and schedule projections for the project remain the same--i.e., \$21-\$25 million and 5-7 years to full implementation.

Question: Can you give us an estimated long-range savings as a result of this project?

Answer: Benefits, both tangible and intangible, projected over the life cycle of the proposed system have been valued at \$105 million.

Question: How much money is needed in each succeeding fiscal year to implement this project?

Answer: The present resource level, including the increase requested in this budget, should be sufficient to support this project in future years. Ordinary inflation will need to be covered in budgets but no expansion of resource levels, other than inflation is expected at this time.

Programmatic Reductions

You are proposing programmatic reductions totalling \$830,000 to cover the increased costs associated with the 1991 pay raise. Your justification states that this reduction will be applied to contracts.

Question: How much money have you budgeted for contracts in FY 91 and how does this amount compare to the amount budgeted in the current fiscal year?

Answer: The budgeted amount for contracts in FY 91 totals \$54,757,000. The budgeted amount for contracts in FY 90 totals \$79,793,000. This is a decrease of \$25,036,000, which includes a reduction of \$23,236,000 for FRB reimbursements.

Question: Which specific contracts will be scaled back in FY 91 and what will be the impact?

Answer: We cannot be certain which specific contracts will be scaled back. Estimates for FY 1991 were prepared in the summer and fall of 1989. There are always reprogramming requirements and we hope to be able to identify funds in the contract area to absorb part of the pay increase. We do not presently have plans to defer any specific items.

Pay Absorption

Question: In FY 1990, the Congress directed each Federal agency to fully absorb the costs of the 1990 cost of living adjustment. In fiscal year 1991, OMB has required 50 percent absorption of the 1991 pay raise. What impact is the pay absorption having on your ability to carry out programmatic requirements in the current fiscal year? What specific activities were deferred or curtailed to cover the absorbed pay costs?

Answer: Public Debt may have to defer or scale back contractor support for the development of certain automation efforts in FY 1990. Specifically, contractor support for the Redesign for Registered Accounts System, System Development Life Cycle and IBM mainframe maintenance items may have to be curtailed or deferred.

Question: Does your FY 1991 budget restore costs for the 1990 projects which were deferred as a result of the pay absorption?

Answer: The FY 1991 budget does not restore costs for any FY 1990 items that may potentially be deferred as a result of the pay absorption.

Question: In FY 1991, what is the total amount of pay which must be absorbed through programmatic reductions?

Answer: The total amount of pay which must be absorbed through programmatic reduction in FY 1991 is \$830,000.

Question: What impact will this have on your ability to properly carry out your job and reach the estimated savings you project from productivity and automation improvements?

Answer: The fiscal year 1991 budget includes sufficient resources to carry out the Public Debt programs. Because of the need to absorb pay costs, we will need to manage, very

carefully, in all areas, especially travel, printing, contractual services and equipment.

A-76 Adjustment

Question: Please explain the increase of \$485,000 in FY 1991 associated with the A-76 program.

Answer: This adjustment is a technical correction made to reinstate an amount that was withdrawn from the budget in error during the hectic latter stages of finalizing the FY 1990 budget.

Public Debt Accounting and Reporting System (PARS)

In fiscal year 1991 you are requesting \$235,000 and 6 overtime staff to cover the increased costs associated with the implementation of the Public Debt Accounting and Reporting System (PARS). Your justification states that overtime funding is needed because permanent FTEs will not be required when the system is fully implemented.

Question: What are the total costs associated with this project, when do you expect full implementation, and what savings, if any, will result from implementation of this initiative?

Answer: The Congress approved \$200,000 for PARS as a part of our FY 1988 budget request and we are requesting \$235,000 in the FY 1991 request. There were other additional costs for this project that were incurred by the Federal Reserve. These costs were largely unfunded because of our inability to fully reimburse the Federal Reserve for their work.

PARS is divided into three modules: Loan Identification Database (LID), Main PARS, and Government Account Series (GAS). LID's development was completed and implemented in February 1990. Main PARS is currently in testing and is expected to be implemented during FY 1991. GAS is currently at the stage just preceding the coding of programs and is expected to be implemented in the latter stages of FY 1992.

It is anticipated that this project will not save resources (FTEs), but rather, will establish an accounting system, which is in compliance with GAO standards, for effective control over the accounting of the Public Debt of the United States and the related interest expense.

EDUCATION BOND BROCHURES

In fiscal year 1991, you are requesting an increase of \$900,000 to implement an education bond promotional program. Your justification states that this amount will permit you to print approximately 60 million brochures to promote sales of the education bond.

QUESTION. What promotional activities have you undertaken to date on the education bond and what have been the results?

ANSWER. During FY 1989 the Division printed 50 million brochures to promote the Education Bond Program. These brochures are now being distributed to banks, employers, and various organizations throughout the country. Information has also been provided to Congress to be included in constituent newsletters. Our field sales staff are promoting the education bond through sales calls and payroll savings campaigns. Changes have been made to our current advertising materials to include the features and benefits of the education bonds. These efforts have resulted in an increase in the public's interest in the education bond as has been seen in the thousands of mail requests for detailed information.

QUESTION. Are the sales of these bonds since January meeting your original expectations?

ANSWER. It is still too early to assess the impact on actual sales as the education benefit accrues only to bonds sold on or after January 1, 1990. We have not yet seen a rapid increase in sales overall, but we are encouraged by the public's interest in the education benefits which we expect to have a major impact on our annual dollar sales.

QUESTION. What would be the impact on sales of this bond if the Congress were to reduce funding for this activity by \$200,000? How many fewer brochures would be printed?

ANSWER. The \$200,000 reduction would curtail our promotional efforts in that we would have approximately 15 million fewer brochures available to inform consumers about the education features and benefits of the bonds. We do not expect a reduction in dollar sales because of the fewer brochures; however, the reduction could stifle rapid sales growth in the future.

SALES

Last year you stated for the record that you expected to achieve sales of \$8.3 billion in FY 90 and that your goal for FY 89 was \$8.0 billion. Your FY 91 budget justification states that you ended fiscal year 1989 with sales of \$7.7 billion and that your FY 91 goal is to sell \$8.9 billion worth of bonds or an increase of \$600 million in sales over the originally projected FY 90 level.

QUESTION. What is your current sales projection for FY 90-- do you expect to achieve your goal of \$8.3 billion? If not, why not?

ANSWER. Our current sales projection for FY 1990 is \$8.1 billion. This projection is slightly lower than our original estimate because of a decline in the over-the-counter sales due largely to the current market-based interest rate of 6.98 percent.

QUESTION. Is the \$8.9 billion goal for FY 91 realistic in that you did not realize your FY 89 goal?

ANSWER. Although we did not realize our FY 1989 goal, we still consider the FY 1991 goal of \$8.9 billion to be realistic. Our optimism is based on an expected increase in sales from the Education Savings Bond because of increased public awareness of its features and benefits. We also expect sales to increase because of the Division's new direction in management and marketing strategies.

QUESTION. What amount of your FY 91 sales goal is attributable specifically to the Education Bond?

ANSWER. --We included \$400 million in new sales due to the new benefit of the education feature. This figure is consistent with the projection of increased pieces by the Bureau of the Public Debt in their FY 1991 budget.

QUESTION. Your justification states that your projected sales volume in fiscal year 1991 will save \$623 million in interest costs on the public debt. Has that projected savings been deducted from the Treasury Department's FY 91 estimate of \$259.8 billion for interest on the public debt?

ANSWER. Yes. The actual interest cost reduction is higher than \$623 million; the projected savings cited in the Division's budget is net of the estimated cost of the savings bonds tax deferral and the actual cost of administration of the program by the Bureau of the Public Debt and its promotion by the Savings Bonds Division. Also, the direct budgetary impact of the Savings Bonds Program in 1991 is based on interest earnings on all savings bonds outstanding in 1991, while the cost/benefit projections in the Division's budget follow official budgeting standards by citing the discounted present value of all current and future costs and savings from 1991 sales alone.

QUESTION. How was this \$623 million in savings arrived at?

ANSWER. The latest study by the Office of Domestic Finance estimates the net present value of debt cost reductions from each year's sales of savings bonds, over the lifetime of the bonds, at \$70 million for every \$1 billion of sales. The \$623 million was derived by multiplying the \$70 million by the \$8.9 billion projected sales.

FY 90 PROGRAM

Your justification shows a reprogramming of \$585,000 to cover the costs of the 1990 pay raise and other costs.

QUESTION. Can you please explain the increases in costs associated with supplies, technical publications, consumer information materials and freight and telecommunications charges? Why weren't funds fully budgeted for these activities in your FY 90 budget?

ANSWER. In addition to the 1990 payraise, funds were reprogrammed to replenish existing supplies of technical publications and major generic consumer information materials. Funds allocated for these supplies in FY 1989 were used to print the 50 million brochures to implement the Education Bond Program in FY 1990. The increase in freight is due to unexpected cost increases for shipments of promotional materials. Telecommunications charges increased as a result of the FTS 2000 system. Funds were not budgeted in the FY 1990 budget because we were not aware of these activities at the time the FY 1990 budget was submitted and approved.

QUESTION. What specific contract services and equipment purchases will be curtailed as a result of the reprogramming?

ANSWER. The Division curtailed contractual services for the development of advertising materials and the design of the Management Information System. Funds for purchases of ADP equipment were also reduced.

QUESTION. Are funds for these activities restored in your FY 1991 budget?

ANSWER. Funds were not restored in the FY 1991 budget because the areas where they were reprogrammed needed to maintain the current base established through the reprogramming.

QUESTIONS SUBMITTED BY SENATOR KERREY

EDUCATION SAVINGS BOND PROGRAM

Question: Could you elaborate on the Education Savings Bond Program, particularly your statement that "under certain circumstances" interest earned will be free of Federal taxes and later, "for the first time such Bonds would be entirely free of all taxes".

Answer: If a taxpayer redeems series EE savings bonds with January 1990 or later issue dates, he or she may exclude from income all interest accrued on those bonds provided:

1. the taxpayer was owner or co-owner with spouse of such bond;
2. the taxpayer or spouse "if co-owner" was at least 24 years old when such bonds were purchased;
3. during the redemption year, the taxpayer or spouse paid tuition and fees required for enrollment of the taxpayer, spouse, or dependent child at an eligible post-secondary school;
4. the taxpayer was single with a modified adjusted gross annual income of \$40,000 or less or married with a joint modified adjusted gross annual income of \$60,000 or less for the tax year of redemption. Married taxpayers filing separately are not eligible and,

5. after subtracting any nontaxable or tax exempt scholarship or assistance payments, remaining tuition and fees referred to above were equal to or greater than the eligible bond proceeds.

As can be seen, interest earned on such bonds would be free from Federal income tax if all pertinent conditions are met, particularly those relating to income phase-out rules. Under those circumstances, the securities would be free from taxation of any kind, since savings bonds have always been exempt from State and local income taxes.

Federal Reserve Bank Services

Question: How are the costs of the Federal Reserve Banks calculated? What has been the actual cost in each of the last five fiscal years and how has the appropriation compared with the cost?

Answer: The cost estimates for the FRBs are submitted annually by the banks, with the requirements broken out by Planning and Control System (PACS) codes. These codes designate certain activities in which the banks provide services which are reimbursable by the Treasury. Within each of these codes, the costs are further broken down by expense categories. Upon receipt of the banks' submission, they are distributed to various Program Managers within the Bureau of the Public Debt who review the submissions for compliance with applicable regulations and directives. The submissions are adjusted as necessary to include costs for new initiatives or projects which the Program Managers know will affect costs at certain banks. The submissions are also reviewed to ensure that the banks are not requesting reimbursement for items which are not allowable, such as certain overhead costs. These cost estimates are then consolidated and form the basis for our appropriation request. Actual cost and appropriation comparison are set out below.

FEDERAL RESERVE REIMBURSEMENTS

FISCAL YEAR	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 4/
Bureau Request	35,290	36,787	46,019	44,482	44,443	48,367	64,638	79,245	76,589	79,816	75,281	83,244
Congressional Request	32,854	34,387	44,482	41,453	44,443	49,479	50,660	37,098	72,219	75,681 1/	75,281	80,235
Appropriation	33,084	41,247	37,235	41,040	48,357	50,201	29,889	31,650	48,809	52,271 2/	23,236 3/	
Actual Payments	37,252	36,303	37,300	43,572	45,624	50,303	29,216	40,682	48,809	52,158		
Actual Billis	37,252	36,303	37,300	43,572	45,624	50,303	65,300	68,500	53,552			
Savings Type Securities	21,857	21,346	20,553	23,699	24,220	25,312	11,425	22,138	18,547	20,293	8,830	
Marketable Securities:	15,395	14,957	16,747	19,873	21,404	24,991	17,791	18,544	30,262	31,978	14,406	

1/ Revised to reflect Fiscal plan and application of a portion of \$5 million undesignated O/S reduction.

2/ Reflects \$3,410,000 Congressional reduction.

3/ Reflects Congressional reductions of \$4,886,000 and \$11,524,000; \$14,000,000 reduction to fund Drug Bill.

This amount does not include \$1,870,000 FRB reimbursements for developmental costs, through the request of \$75,281,000 does include these costs.

4/ Proposed legislation for FRB Reimbursements to be a permanent indefinite appropriation in FY 1991.

QUESTIONS SUBMITTED BY SENATOR BYRD

Parkersburg, West Virginia Facility -- Staffing

Question: In response to FY 1990 report language incorporated at my request, you wrote to me in a letter dated January 17, 1990, and reported on the Bureau of the Public Debt's staffing and overtime requirements at its facility in Parkersburg, West Virginia, including the fact that employment at the Parkersburg facility has increased from 1,020 employees in FY 1984 (45 percent of the combined Washington-Parkersburg Bureau of the Public Debt workforce) to 1,147 employees (58 percent of the combined workforce) in FY 1991. I am pleased by this positive response. What more can be done to expand the workforce at Parkersburg, in response to the intent of the Committee report that Washington-based functions be shifted to the Parkersburg facility?

Answer: We will continue to look for opportunities to perform Public Debt functions in the place where the work can best be accomplished. In this process, we will continue to consider our Parkersburg location as well as the Federal Reserve Banks and our Washington location.

Question: In addition, in connection with overtime requirements in relation to workload and staff resources, you reported that overtime usage has declined from 36.6 FTE in FY 1988 to 20 FTE in FY 1989, and that the FY 1989 overtime included only a very small amount of scattered and irregular mandatory overtime. You further indicated that this progress will continue in FY 1990, when it is estimated that there will be a need for approximately 12 FTE of overtime. Again, I am pleased by this response and encourage the continuation of the improvement that occurred.

May I have your assurance that you will keep me fully informed of developments in this area?

Answer : Yes. You have my assurance, Senator.

Parkersburg, West Virginia Facility -- Lease Renewal

The General Services Administration (GSA), in response to my request, has been working with the Bureau of the Public Debt, to accelerate the lease renewal at Parkersburg. I am

advised that early renewal would help ensure the stability of the Bureau of the Public Debt facility at Parkersburg and involve substantial savings for the Federal Government. At last year's hearing, you indicated that you have informed GSA that you plan to continue to use the Parkersburg facility, that you are pleased with the lessor's performance, and that there are no plans to relocate the over 1,100 Public Debt employees.

Question: What is the latest status of the early renewal of the lease agreement of the Bureau of the Public Debt facility in Parkersburg, West Virginia? I am advised that the lease package is currently at the GSA Regional office in Philadelphia and about to be sent to the GSA office in Washington, DC. Please provide a schedule of events leading to the signing of a new lease. May I have your assurances that you will keep me fully informed on this matter?

Answer: The General Services Administration advises that negotiations with Leased Housing Developers Inc., the owners of the facility which houses Public Debt's savings bond operation in Parkersburg, West Virginia, are nearly concluded. It is anticipated that a new 10-year lease will be signed within the next few weeks. Yes, you will be notified of the completion or any unforeseen difficulties which may complicate execution of the new lease.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF CONSTANCE B. NEWMAN, DIRECTOR

ACCOMPANIED BY:

CLAUDIA COOLEY, ASSOCIATE DIRECTOR FOR PERSONNEL SYSTEMS
AND OVERSIGHT

JACK PREBIS, ASSOCIATE DEPUTY DIRECTOR FOR PLANNING AND
BUDGET

CURT SMITH, ASSOCIATE DIRECTOR FOR RETIREMENT AND INSUR-
ANCE

INTRODUCTION OF WITNESS

Senator DeCONCINI. Our next panel will be the Office of Personnel Management.

We are pleased to have as our lead witness the Director of the Office of Personnel Management, Constance Newman.

This is your first appearance before the subcommittee. We see you came well prepared. You have had a busy year, I understand, with all of the new developments on pay reform and other Federal employee issues.

If you could tell us today, I would be interested in learning of the provisions contained in the administration's recent pay proposal and discussion of the initiatives contained in the President's budget on this topic. When you get to it, I have questions which relate to the law enforcement community that you worked so hard on.

The budget for the Office of Personnel Management for fiscal year 1991 totals \$9.3 billion in budget authority, and 5,886 positions. This amount represents an increase of \$268 million over the fiscal year 1990 level; the largest increase is in the projected payment to the civil service retirement and disability fund.

I look forward to your testimony, Ms. Newman, and you may introduce everyone you have here, or anybody else you want, and then your full statement will appear in the record if you will summarize it for us.

STATEMENT OF CONSTANCE NEWMAN

Ms. NEWMAN. Yes, Mr. Chairman, and Senator Mikulski. I have with me today Curt Smith, who is the Associate Director for Retirement and Insurance.

Senator DeCONCINI. Welcome, sir.

Ms. NEWMAN. Jack Prebis, who heads Planning and Budget; and Ms. Claudia Cooley who is the Personnel Systems and Oversight Group Associate Director.

Senator DeCONCINI. OK.

Ms. NEWMAN. I would like to highlight my remarks.

I am sure that you read that the President's budget for fiscal year 1991 calls for significant changes in the Federal employees'

pay and the benefits programs, and I would like to take just a moment to highlight those provisions.

PAY REFORM

In the area of pay for Federal employees, the budget calls for implementation of the first phase of the pay reform initiative. This will involve interim measures designed to address the most chronic and pressing pay problems.

First of all, we propose to offer geographic differentials of up to 8 percent for the General Schedule workers in three high-cost metropolitan areas: New York, Los Angeles, and San Francisco.

While it is true that salary rates for Federal jobs are behind those in the non-Federal sector in many parts of the country, labor costs in these three locations are far above national norms, and Federal agencies in these three areas are, in fact, experiencing severe recruitment and retention problems. It is our view that payment of geographic differentials will provide some interim relief.

Second, we propose to increase starting salaries nationwide for entry-level occupations normally filled by college graduates at the GS-5 and GS-7 levels. Currently, there are large disparities between Federal and non-Federal entry-level pay for most professional and administrative occupations.

As a result, the Government is at a serious disadvantage in competing for the graduates of our Nation's universities. Being able to pay an additional 5 percent at these levels will help to restore the Government's ability to recruit college graduates for Federal service.

Third, we propose to extend to all grade levels the authority to hire individuals with unique or specific qualifications at rates above the minimum for the grade. This authority, as you know, currently is available only at GS-11 and above. Removing that limitation will enable agencies to compete more effectively for specially skilled individuals at entry and advanced entry levels.

Finally, we propose to authorize the payment of bonuses to recruit, retain, or relocate workers with critical skills. These flexibilities will give agencies a badly needed tool for getting well-qualified individuals to come to, or remain in, the Federal service. Also, such a bonus authority will be highly useful in encouraging individuals to move from one location to another, especially when the move is from a relatively low cost area to one where the costs are high.

All these proposals I have described are in addition to the 3.5 percent general pay increase.

These, we believe, are just the first step in addressing the long-term problems that the Government has in recruiting and retaining the best.

HEALTH BENEFITS

With regard to the health benefits program—I will not spend a great deal of time on this—we are considering both interim steps and a long-term reform. In the interim, we are pursuing either the weighted average formula, or the option of a combination of legislative and administrative changes to the program.

As far as the long-term proposal, we are interested in a structure that will address the basic problem of risk segmentation, and the economic inefficiencies of the current program, while continuing to support the fundamental principles of cost sharing and informed choice.

Our proposed program would be a self-insured program which would offer choice among five indemnity benefit plans administered through contracts, with HMO alternatives in given geographic areas.

We also have in our budget proposal the completion of the change to require the Postal Service and the District of Columbia to pay the Government contribution toward health benefits for their retirees and survivors.

RETIREMENT

We will soon be submitting legislation dealing with a number of retirement issues. Despite the fact that very few private pensions are fully and automatically adjusted for inflation, cost-of-living adjustments under the Civil Service Retirement System continue to be linked to the total changing Consumer Price Index. In order to provide for consistency and equity within the Federal service, our legislative proposal would revise the method of computing the cost-of-living adjustments under the older system to conform with the CPI-minus-one formula that is used in the newer Federal Employees' Retirement System.

We will seek to cancel the fiscal year 1991 cost-of-living adjustment under retirement systems for both military and civilian employees.

We are proposing to remove from the old and new retirement systems provisions which permit employees to withdraw an amount equal to their contributions in a lump sum at the time of retirement. Elimination of those costly provisions would save nearly \$1.5 billion in fiscal year 1991 alone.

Apart from the pay and benefits issues, we will be proposing a new public service scholarship program, which I am prepared to talk about.

OPM APPROPRIATIONS

For salaries and expenses, we are requesting a total of \$113.9 million, including an additional \$1.3 million to support pay reform initiatives; and \$1 million to improve the training for Federal employees who deal with the public. Improving the frontline is extremely important.

In our retirement and insurance program, we are requesting an expense limitation of \$75.2 million, including \$800,000 to continue developing an automated processing system, \$950,000 devoted to ongoing training of the frontline people in the retirement and insurance group, and \$474,000 to improve the quality of information we provide to our annuitants.

The OPM appropriation also includes payments for the Governmentwide employee benefits programs, as you know. At the current services level, we would need \$3.5 billion to pay the Govern-

ment's share of the cost of health benefits for retirees who, of course, have no agency to contribute the Government's share.

We will be needing the Government's share of the cost of life insurance for retirees who have not reached age 65. The amount we are requesting for this for fiscal year 1991 is \$8.7 million.

For the Civil Service Retirement Fund, we are requesting an appropriation of nearly \$5.7 billion in current authority. This payment, which is required under the financing system established in 1969 by Public Law 91-93, represents a 30-year amortization cycle for the retirement costs attributable to pay increases and benefit liberalizations.

Mr. Chairman, I am prepared to answer any questions.

PREPARED STATEMENT

Senator DeCONCINI. Thank you, Ms. Newman. We have your complete statement and it will be made part of the record.
[The statement follows:]

STATEMENT OF CONSTANCE BERRY NEWMAN

Mr. Chairman and members of the subcommittee: Thank you for inviting me to appear this morning to discuss the President's request for appropriations for the Office of Personnel Management for fiscal year 1991.

As I'm sure you are aware, the President's budget for fiscal year 1991 calls for significant legislative changes in Federal employee pay and benefits programs. If I may, I would like to begin by briefly reviewing those initiatives, before turning to OPM's own budget.

In the area of pay for Federal employees, the President's budget calls for early implementation of the first phase of the administration's pay reform initiative. This will involve both interim measures and selected additional features designed to address the most chronic and pressing pay problems.

First, we propose to offer geographic differentials of up to 8 percent for General Schedule workers in three high labor cost metropolitan areas—New York, Los Angeles, and San Francisco. While it is true that salary rates for Federal jobs are behind those in the non-Federal sector in many parts of the country, labor costs in these three locations are far above national norms, and Federal agencies in these areas are experiencing particularly severe recruiting and retention problems. Payment of geographic differentials will provide some interim relief.

Second, we propose to increase starting salaries nationwide for entry-level occupations normally filled by college graduates at the GS-5 and GS-7 levels. Currently, there are large disparities between Federal and non-Federal entry-level pay for most professional and administrative occupations. As a result, the Government is at a serious disadvantage in competing for graduates of our Nation's universities. Being able to pay an additional 5 percent at these levels will help to restore the Government's ability to recruit college graduates for Federal service.

Third, we propose to extend to all grade levels the authority to hire individuals with unique or special qualifications at rates above the minimum for the grade. This authority is currently available only at GS-11 and above. Removing that limitation will enable agencies to compete more effectively for specially skilled individuals at entry and advanced entry levels.

Finally, we propose to authorize the payment of bonuses to recruit, retain, or relocate workers with critical skills. These flexibilities will give agencies a badly needed tool for getting particularly well-qualified individuals to come to, or remain in, the Federal service. Also, such a bonus authority will be highly useful in encouraging individuals to move from one location to another, especially when the move is from a relatively low cost area to one where the costs are relatively high.

All the proposals I just described are, of course, in addition to the 3.5 percent across-the-board pay adjustment contained in the fiscal year 1991 budget.

These are, however, only the first steps toward a comprehensive, long-term solution to the Government's pay problems. We are now completing the coordination of views within the executive branch on a legislative proposal to achieve fundamental pay reform.

With regard to the Federal Employees Health Benefits Program, the administration will, as in the pay area, be taking interim steps to stabilize the program while pursuing comprehensive reform. That stabilization is to come about either by using a weighted average formula for determining the Government's contribution or by the adoption of a mix of legislative and administrative initiatives. The "weighted average" formula would use as a cap on the maximum dollar amount the Government would contribute to each employee's plan, 60 percent of the weighted average of all plans. This formula would be a substitute for the present formula which is 60 percent of the simple average of the "big six" carriers. In 1975, when the "big six" represented 90 percent of all FEHB enrollment, a simple average of their premiums was an adequate method of ascertaining the Government's share of the cost. Today, however, with 321 plans, and with one of the "big six" (AETNA) having left the program, the weighted average approach would more accurately reflect the original intent of the law.

Alternatively, similar savings for fiscal year 1991 could be achieved through a mix of legislative and administrative changes. We are fully prepared to support this approach if Congress prefers it to the weighted average approach. The required legislative actions would include: 1) immediate preemption of state premium taxes; 2) unification of the contingency reserves, which now exist on a plan-by-plan basis and are excessive in view of the risks confronting the program as a whole; and 3) changing the calculation of the FEHB Government contribution from 60 percent of the "big six" average to 67 percent of the weighted average, resulting in an aggregate Government share of premium costs of 65 percent.

OPM will also undertake administrative actions that are consistent with reform objectives and lessen the rate of premium increase. These actions include: 1) ensuring that proper coordination takes place with respect to Medicare benefits and that payments do not exceed the specified maximum allowable actual charges; and 2) mandating that participating carriers adopt appropriate cost-containment techniques. We will also require that profit charges reflect the effectiveness of these changes, as determined by independent assessments.

Beyond these interim measures, the comprehensive reform that we are proposing will address the basic problems of risk segmentation and economic inefficiencies while continuing to support the fundamental principles of cost sharing and informed choice. The new program would be self-insured and would offer a choice among five indemnity benefit plans administered through contracts, with HMO alternatives in a given geographic area.

One final health benefits issue of particular interest to the subcommittee involves the budget proposal to complete the change to requiring the Postal Service, and the District of Columbia government as well, to pay the Government contribution toward health benefits for their retirees and their survivors. As you know, this would not only eliminate a hidden subsidy to these entities, but would also complete a process Congress began in 1986. In that year, the Postal Service was required to pay for health benefits coverage for Postal employees retiring after September 1986. Last year, the budget reconciliation measure extended that requirement to cover individuals who became survivors of those retirees or of Postal Service employees after that date.

Also, we will soon be submitting legislation dealing with a number of retirement issues. First, despite the fact that very few private pensions are fully and automatically adjusted for inflation, cost-of-living adjustments under the Civil Service Retirement System continue to be linked to the total change in the consumer price index. In order to provide consistency and equity within the Federal service, our legislative proposal will revise the method of computing cost-of-living adjustments under that older system to conform with the "CPI-minus-one" formula used in the newer Federal Employees' Retirement System established just a few years ago.

In addition, we will seek to cancel the fiscal year 1991 cost-of-living adjustment under retirement systems for both military and civilian employees. This is an essential part of the administration's deficit reduction effort.

Our retirement proposal will also require the Postal Service and the D.C. government to pay more fully for the cost-of-living adjustments in retirement benefits for their annuitants. By mandating these additional contributions, we will ensure that the costs of retirement benefits are paid by the entities whose employees receive these benefits.

Finally, we will be proposing to remove from the old and new retirement systems provisions which permit employees to withdraw an amount equal to their contributions to the systems in a lump sum at the time of retirement. Elimination of these costly provisions would save nearly \$1.5 billion in 8 fiscal year 1991 alone, without any reduction in the lifetime value of annuitant pension benefits.

Apart from the pay and benefits issues, we will be proposing legislation to establish a new Public Service Scholarship Program. Scholarships would be awarded to exceptional students at the undergraduate or graduate level. In exchange, each recipient would be required to work for the Federal Government for one year for each year of education funded. We will request funds for this program after the necessary authorizing legislation is enacted.

Now I would like to turn to the appropriations request for OPM itself. We are asking for a salaries and expenses appropriation of \$113.9 million. An additional \$1.3 million will be used to support the pay reform initiatives I discussed earlier. We would devote \$1 million to improved training for Federal employees on how to deal with the public. I believe that improving our "front line"—the employees who serve as the initial points of contact when members of the general public contact Government agencies—is vital.

For our administration of the retirement and insurance programs, we are requesting an expense limitation of \$75.2 million, including \$800,000 to continue developing the automated processing system for the Federal employees' retirement system. An additional \$950,000 will be devoted to a comprehensive, ongoing training program aimed at improving the skills and productivity of our "front line" staff in retirement operations. We also propose to commit \$474,000 to improving the quality of information provided to annuitants under our retirement programs. This will involve an additional annual mailing highlighting major program changes such as the Medicare catastrophic repeal, or the withdrawal of AETNA from the FEHB program.

The OPM appropriation also includes payments for the Government-wide employee benefits programs. At the current services level, we would need \$3.5 billion to pay the Government's share of the cost of health benefits for retirees and survivors who, of course, have no agency to contribute the Government's share. If the administration's proposed legislation to have the Postal Service and the D.C. government pay their full share of annuitant health benefits costs is enacted, the funding requirement would be reduced to \$2.8 billion. Finally, if either the weighted average proposal or the alternative mix of legislative and administrative actions were adopted, the amount would be further reduced.

In addition, funding will be needed for the Government's share of the cost of life insurance for retirees who have not reached age 65. As with health benefits, since retirees have no employing agency, this will have to be done by an appropriation to OPM. The amount we are requesting for this purpose for fiscal year 1991 is \$8.7 million.

For the Civil Service Retirement Fund, we are requesting an appropriation of nearly \$5.7 billion in current authority. This payment, which is required under the financing system established in 1969 by public law 91-93, represents amortized payments over a 30-year cycle for the retirement costs attributable to pay increases and benefit liberalizations.

Thank you. I would be glad to answer any questions you may have.

COMBINED FEDERAL CAMPAIGN

Senator DECONCINI. As you may be aware, Director Newman, I have had a longstanding interest in the Combined Federal Campaign and how it is conducted on the whole.

I believe that the revised legislation and subsequent regulations have been constructive and positive. However, there are a few technical questions which I would like to submit to you for the record, and if it is not too much trouble, maybe you could respond to us.

Ms. NEWMAN. Certainly.

Senator DECONCINI. I will appreciate the response to the questions as soon as you can get to them. However, I know you have a lot of things to do. We have been involved in this issue for a number of years.

Let me raise one potential serious problem that I see. The formula contained in the 1987 legislation expires at the end of the 1990 campaign. A great deal of time and energy was invested in developing that formula, and I would ask that you notify me before any proposals for altering the formula are made, if you can.

I know there are other Senators and Congressmen who are following this, as well, and I have talked to some of them, and we would like to be kept abreast. Maybe you can tell us now or if you want to submit that, you can.

Ms. NEWMAN. Mr. Chairman, on the way that the Combined Federal Campaign is being administered, it was my decision for this year to stick with the regulations of last year.

But we did, as you know, have some problems in determinations of exclusions of certain organizations based on what, after my review, I think were technicalities. And instead of changing the regulations, I thought that our whole process ought to look at being more flexible.

Having said that, I do think that this year we need to revisit the formula as well as the regulations. But we need to revisit that, not as an internal process, but external. I have talked with the heads of some of the organizations to see whether or not it is working, and whether they are satisfied with it. And if there are any changes contemplated, it will be an open process.

Senator DeCONCINI. I see.

Ms. NEWMAN. Because there are so many people in so many places concerned about this.

Senator DeCONCINI. What will you do? Will you do some hearings or will you—

Ms. NEWMAN. We would have to do that. We would have to do hearings.

And my thought was, we certainly did not want to do anything during the campaign season to disrupt the contributions that people were making, because they would be nervous about the program.

In addition to that, we are starting to get the applications in for this next round. I think that before we start next year's campaign we will have people consider alterations in the—

Senator DeCONCINI. So that would be sometime this summer?

Ms. NEWMAN. That would be sometime this summer. Summer or fall.

Senator DeCONCINI. Like August or July, or September, before the season starts?

Ms. NEWMAN. That is right.

Senator DeCONCINI. I see.

Ms. NEWMAN. It is my feeling that if we do anything during the campaign season that raises questions about the program, we might discourage people, or give people an excuse.

Senator DeCONCINI. Yes; I can see your point, and I think it is a good one.

We are just concerned about the principle of exclusion.

Ms. NEWMAN. Right.

Senator DeCONCINI. And we also realize that can be carried to extremes. I just wanted to raise that issue with you as you go through the process, and I compliment you for doing that. I think it is important that those organizations get a chance to have input, or to thank you, or whatever it may be.

Ms. NEWMAN. I have not heard thanks very often. [Laughter.]

Senator DeCONCINI. Maybe you will this time.

Ms. NEWMAN. OK.

PAY REFORM

Senator DECONCINI. Ms. Newman, I want to ask you some questions on the administration's pay reform proposal and the initiatives which are contained in the President's fiscal year 1991 budget request.

The budget proposes locality pay differentials of up to 8 percent for three geographic areas: New York, Los Angeles, and San Francisco. It also proposes to increase GS-5 and GS-7's entry level pay scales for college graduates by 5 percent; extends to all agencies the authority to hire individuals with unique or special qualifications at higher than entry grade levels; and authorizes the payment of bonuses for recruiting, retaining, or relocating employees with critical skills.

I think all of these proposals have a great deal of merit and, as you say, are a start as the Congress and the administration continue to debate the pay reform legislation.

However, one thing I am very concerned about with respect to these initiatives is that none of the Federal agencies' budgets have been increased to accommodate these special pay increases.

Additionally, the President's budget only includes 50 percent of the cost for the 3.5-percent cost-of-living adjustment in 1991. I am sure you are aware of that. The agencies must absorb the remainder, along with the full increased cost of administratively uncontrollable overtime pay and special pay rates.

Have you done any kind of budgetary assessment to determine Governmentwide what the cost would be to implement the President's pay reform initiatives, the 1991 COLA, the AUO, and special pay rates in fiscal year 1991, and what total amount the agencies will have to absorb?

Ms. NEWMAN. Mr. Chairman, we have looked at all of that. However, as you probably know, there is an increase in the amount of money going to the agencies to cover these raises. This budget contemplates only a 50-percent absorption of the general pay increase.

I know you are not happy with 50 percent. But, as a matter of fact, the last budget required of agencies between 75 and 100 percent absorption. And, frankly, I considered it somewhat of a victory to get the 50 percent.

Senator DECONCINI. Did you recommend the full amount?

Ms. NEWMAN. Oh, yes, of course. But I also know the environment within which we are operating.

Senator DECONCINI. How much would all these pay initiatives cost? Do you know?

Ms. NEWMAN. Well, the 3.5-percent general increase was \$2 billion. The sum of \$328 million covers the differentials, the 5- and 8-percent differentials and the retention bonuses. The AUO is about \$100 million.

Senator DECONCINI. Another \$100 million on top of that?

Ms. NEWMAN. On top of that, yes.

Senator DECONCINI. So you would be roughly talking about one-half of a billion dollars, almost, or \$430 million?

Ms. NEWMAN. Yes, right.

Senator DECONCINI. Thank you.

Ms. COOLEY. Now, this does not include the 3.5 percent, funded at 50 percent.

Senator DeCONCINI. And special pay rates are not included in that either?

Ms. NEWMAN. No; where there are already special pay rates, that's in the base of the ledger, yes.

Senator DeCONCINI. Yes.

Ms. COOLEY. But for new ones that are anticipated, that is not included, but we have no way of knowing the cost of those in advance.

ABSORPTION OF PAY RAISES

Senator DeCONCINI. Don't the agencies have to show that they can absorb it or do it before beginning to take it?

Ms. NEWMAN. Yes; that is part of their showing.

Senator DeCONCINI. So they want it, and they have to come up with some excuse to do it, but they don't have the money, so they have to justify—

Ms. COOLEY. But once they get it, the next year it is funded in the base.

Senator DeCONCINI. I see. And then what is one-half of the 3.5-percent increase? Do you know?

Ms. COOLEY. About \$1.7 billion.

Senator DeCONCINI. The whole thing was about \$3 billion?

Ms. NEWMAN. The whole thing was about \$3 billion, I think. Why don't I get that to you? I would feel more comfortable about that.

Senator DeCONCINI. OK. Anyway, it is \$1.5 billion, or \$1.2 or \$1.3 billion.

Ms. COOLEY. Every percent is another one-half of a billion.

Senator DeCONCINI. So we're talking about \$1.5 billion.

Ms. NEWMAN. We will get that for you, Mr. Chairman.

Senator DeCONCINI. It just seems, and maybe you agree, Ms. Newman, very difficult—and I don't know how we can expect to have these agencies absorb all these costs and continue to provide the services.

We have had the Customs Commissioner, we have had the head of ATF try to put the best spin on it they can, but under questioning they have to admit that something is going to have to be cut.

Ms. NEWMAN. But, Mr. Chairman, we have been addressing this issue, and my thinking is that it is better for us to give the agencies the flexibility than not to do that, waiting for the money to be available.

And as to some of the flexibilities under the pay reform proposal, the agencies won't be mandated to use them. They can make the determination, for example, if our bill passes, on whether to pay relocation or retention bonuses or staffing differentials, and they will make those determinations based on affordability.

Senator DeCONCINI. Yes; I can see your point. If they are going to have to take them, you might as well let them make the decision as to how they are going to do it.

My problem is, I don't know how long we can keep doing this and pretend that these agencies are going to be able to maintain

the services, and most of them are asking for some increases. ATF, Secret Service, and others all have to absorb those costs.

I am sure you are aware of this; I am not telling you anything you don't know. It just really troubles us here, how to fund them without causing some real hardship on the services.

And then when you get to those that deal with drugs, you get into a real contradiction with the drug strategy put out by the President and Secretary Bennett.

So I was hoping you had a solution for me.

LAW ENFORCEMENT PAY

Let me turn to the Law Enforcement Pay Reform Act. As you know, 3 weeks ago I introduced S. 2250, the Federal Law Enforcement Pay Reform Act of 1990, the bill that came out of a commission that you served on.

It was a pleasure to serve with you, and I appreciate the amount of work that your staff put in on that, and I was there at most of those meetings, and I know that your staff contributed a great deal. I believe Ms. Cooley, of your staff, did a lot of work on that, and I thank you for that.

I am sure it is not perfect, but at least we have got our job done. While the initiatives included in the President's budget begin to address some of the problems of entry level and locality pay, they certainly do not address housing bonuses, retention allowances, foreign languages bonuses, or a new pay system for Federal law enforcement officials.

Have you had a chance to review the law enforcement legislation that I introduced, and if so, do you believe that this legislation will help correct those problems of recruitment and retention that the Federal law enforcement agencies laid out to us, and that our study concluded?

Ms. NEWMAN. Well, Mr. Chairman, I agreed with the basic purpose of the legislation. As you know, and as I indicated in the last commission meeting, I do have some concern that it is across the board.

I would like us to be in a position now to develop legislation that will address the problems of the law enforcement community as well as other occupations, and it was our feeling that if we came up with legislation that recognized the problems of the law enforcement occupations and the health professions, as well as all the other occupations, that we would be performing a service.

And when I say address the problems, it means that we felt we had to come up with legislation that had sufficient flexibility to allow the various agencies to address the need for retention, and we do, as a matter of fact, have provisions for that in the interim relief part of the legislation.

But it would also permit determining that there may be certain occupational groups that will need a separate schedule, but under the umbrella of the overall system. So then our proposal—

Senator DeCONCINI. That is, excuse me, law enforcement.

Ms. NEWMAN. Law enforcement. We use that as one example of an occupational group or community that would probably have a special schedule. The health professions are another.

Where we probably have a problem comes down to something that you alluded to earlier, and it is the money. If there are limited resources, I would have some concern about the levels, or the potential levels of across-the-board increases for the general schedule, which then would draw down on the total budget, not allowing us to address some of the problems in particular occupations.

I am just being honest about the concern.

Senator DeCONCINI. Yes.

Ms. NEWMAN. And what I wanted us to do was to have a proposal that recognized the special problems of the law enforcement community, and build in, even in the interim period, some relief, and then study the extent to which there ought to be a special schedule, and how that schedule ought to be designed.

Many of the provisions in your bill are in our proposal.

Senator DeCONCINI. The one you are working on?

Ms. NEWMAN. The one we are working on.

Senator DeCONCINI. Yes; that is the administration pay reform proposal.

Ms. NEWMAN. The pay reform proposal. But you understand our basic structure.

Senator DeCONCINI. I do. You want to do the whole thing, and within it you want to have some special considerations, and I understand the need to look at the whole thing. The reason that commission was put together was the crisis, or the problem, that at least Congress thought, and so did the President, in signing the bill that created the commission, that we have to at least move forward here.

TIMING OF PAY REFORM

Let me ask you this question. When do you think the administration will have a comprehensive pay reform bill?

Ms. NEWMAN. Well, we have a very detailed draft bill. And as a matter of fact, I have testified both in the Senate and the House committees on the broad outlines of the bill.

Senator DeCONCINI. In the Governmental Affairs Committee, yes.

Ms. NEWMAN. As you can imagine, we are having discussions within the administration, and it is mainly about money, and the decisionmaking process. Last week, I had said this week, but I think it will be another week yet, because the whole process of coming up with pay reform will not be an easy one in our negotiations here on the Hill if we have not internally resolved how much we are going to be able to afford over a period of time, and what the decisionmaking mechanism is.

So it was my belief, and I think the belief of the people at the Office of Management and Budget, that we ought to resolve those tough areas before coming out with the proposal. But we are almost there.

Senator DeCONCINI. Almost there. Can I be so presumptive as to ask you when the decision is made—and let us say it is to proceed with a substantial bill, maybe not exactly as your draft—do you anticipate that that includes the commitment for the money in the

budgets for the future budgets? Or is there going to be authorization without money?

Ms. NEWMAN. We are talking about that. I mean, that is the tough part.

Senator DeCONCINI. I guess you don't know.

Ms. NEWMAN. What I know is that there is a concern about the impact of pay reform on the budget, and I also know that it is as important for us to address the structure of the system.

If we can address the structure now, we can always debate each year about what the levels will be; I do not think that we have to resolve exactly how much—what resources will be available in fiscal years 1991, 1992, and 1993 if we have some comfort that the system is going to be a fair one, and that it is designed properly.

I am not willing to say that we shouldn't go forward with pay reform if I am unhappy about the level available. The mechanism in place is as important at this time as the money.

Senator DeCONCINI. So do I gather that you think the money has to be part of the decision to put forward a comprehensive bill?

Ms. NEWMAN. I think it should be, but I am saying something else, too.

Senator DeCONCINI. You are saying you would go ahead if you didn't have it, assuming it was a good bill?

Ms. NEWMAN. I am saying that about the structure, right.

Senator DeCONCINI. And worry, or try to get the money, as soon as you had passed it.

Ms. NEWMAN. Right.

LAW ENFORCEMENT PAY

Senator DeCONCINI. Let me ask you this question. Have you formulated a position on the law enforcement proposal I introduced?

Ms. NEWMAN. We have commented, not specifically on the bill, but within the Law Enforcement Commission Report—

Senator DeCONCINI. I read those comments.

Ms. NEWMAN. Right.

Senator DeCONCINI. But besides that, specifically to the legislation.

Ms. NEWMAN. We are preparing a full statement, but frankly the statement will pretty much mirror what I have said, which is we want to move forward in an overall solution to the Government's pay problems.

Senator DeCONCINI. Well, maybe you don't want to, or maybe you can't, say what the administration's position would be, but we would like to know, even if it is lukewarm or even if it is in opposition to it, where it is in opposition to it, or if it is in favor of it, except for some of the reservations that you pointed out at the commission, it would be helpful to those of us who would like to advance the legislation.

Ms. NEWMAN. Yes.

Senator DeCONCINI. And I realize you have to go through some processes to try to get that, but even if your opinion is not that of the administration, your support for whatever you can support in it, with any reservations or caveats, would be helpful to us as we

attempt to get the Governmental Affairs Committee to take it up. I would like to know what your views are on the legislation.

Ms. NEWMAN. Right.

Senator DeCONCINI. Can you submit those to us?

Ms. NEWMAN. Yes; but I don't want to mislead you, Mr. Chairman. My basic view—mine and one that I would be attempting to get the administration to support—is that we need pay reform across the board.

Senator DeCONCINI. I understand that, and I understand that is your primary objective and motive, and I have no problem with that.

Ms. NEWMAN. OK.

Senator DeCONCINI. My question is, if that doesn't occur——

Ms. NEWMAN. Right.

Senator DeCONCINI. Or if it comes and doesn't have a chance of moving, I would like your opinion on this.

Ms. NEWMAN. And we will give you our opinion.

Senator DeCONCINI. And I am not sure that one is going to move either, but I am trying to run two trains, or see two trains coming through, and see which one might pass.

Ms. NEWMAN. I understand. We will comment.

Senator DeCONCINI. I am very likely to support the administration's bill, too, because I think we just have to address this, and you have done a good job, you and your staff, of looking at health care and other areas that need to be looked at.

The Senator from Maryland?

Senator MIKULSKI. Thank you, Senator DeConcini.

Director Newman, I think you have one of the most challenging jobs in Government, because a democracy rests on a committed civil service. The new democracies in Eastern Europe are going to have a heck of a time because they have to deal with Newman Koutora, which are essentially the old Commies. [Laughter.]

So if you think you have a hard time.

And I think the President was lucky and fortunate and blessed to be able to recruit someone of your background and commitment to undertake this job.

HEALTH BENEFITS

Now my basic interest in this is really how we implement some of the recommendations of the Volker Commission. Having said that, I would like to talk first about the issue of health care. As you know, that among the Federal employees is a main concern. There is confusion and they feel the system is chaotic.

The overwhelming number of plans goes beyond a menu to the point of being ridiculous—it is very hard to make informed choices. I am sure you have heard it; I don't need to elaborate it.

We have talked about the fiscal issues, but, as you know, I am wondering what are the specific steps you see dealing with, No. 1, shrinking the array of programs, but still providing options? And No. 2, how do you feel about the Ackerman bill?

Ms. NEWMAN. Let me give you the broad outline, and then I will ask Mr. Smith to fill in.

Senator MIKULSKI. Because we really need to get to this.

Ms. NEWMAN. We have been concerned about the program, and not only have we been concerned, but there have been a number of studies from the Congressional Research Service, and the Towers, Forster and Perrin study.

Based on that, it was our recommendation, first of all, that we look at five indemnity packages, so that people will have an opportunity to look at a core plan—plus supplementals that are of interest to them. And we have talked about splitting the pool—employees and annuitants.

This both will assist in determining what is fair for the premiums, and also in allowing the annuitants and the employees to choose the best plan, based on their needs.

We are talking about moving to a self-insurance plan, and the structure is important to those who are interested in the plan, because it would allow us to have more control over containing the costs, and probably more say in the quality of it.

Senator MIKULSKI. So you are talking about eventually arriving at five plans.

Ms. NEWMAN. Yes; along with the HMO's.

Senator MIKULSKI. What does indemnity mean? Could you explain that?

Mr. SMITH. The easy answer is regular insurance, as opposed to a health maintenance organization. Where you go to your doctor and submit a claim, and it gets paid. Traditional insurance is indemnity insurance.

Senator MIKULSKI. OK, I wasn't quite sure on that.

Mr. SMITH. I think that our proposal seems to be addressing the concerns that you have expressed. We, too, have been moving along, and trying to administer it is as bad as trying to choose a plan from the current array, and we would like to get really clear choices, where people know what they are choosing, and they are choosing based on the quality of service and the cost, and not the confusion that—

Senator MIKULSKI. And family need at different points in life.

Mr. SMITH. Yes.

Senator MIKULSKI. Which I think is a significant issue. Federal employees tell me that after the pay raise, but with the concomitant increase in health insurance, some of them ended up with less take-home pay last year than they had the previous year.

Ms. NEWMAN. We have the same problem that the outside world has.

Senator MIKULSKI. This is not a criticism. This is essentially a no-fault conversation. [Laughter.]

Ms. NEWMAN. I know, and we are trying to—

Senator MIKULSKI. All the trial lawyers will call me now. [Laughter.]

Ms. NEWMAN. We are trying to address that. The premium increases were a little over 13 percent. Hopefully, when we are able to look at what is the cost-effective core, we will be able to provide some relief, but there is still the problem of how health care costs are rising. The President, as you know, has his initiative under Secretary Sullivan looking at health care costs across the board, and we are working with them.

If we can help, in that context, to help the whole system—

Senator MIKULSKI. Well, that is exactly right, and also a model. I think the President, now that we do have on board the head of HCFA, Dr. Gail Wilensky, who I think is a first class expert in this. I think you can get technical assistance there.

PAY REFORM

I would like to move on to the pay benefits issue. As you know, one of the concerns that I have is recognizing high-cost differential. As the Senator from Maryland I have gotten a lot of calls—I might add, tart and prickly calls—about the proposal that does not include Maryland in the Washington high-cost area.

As you know, Mrs. Morella, our colleague from Montgomery County, has put in a bill.

Do you have any thoughts on that issue? And I would like to again tell the story: There are twins who live in Columbia, MD, both work for HCFA; one drives to Washington to work and the other drives to Woodlawn; one is going to get one pay, the other is going to get the other; one will vote for me and the other won't. [Laughter.]

And Mr. Bush.

Ms. NEWMAN. Well, let me say this. We did an analysis of where there were extraordinarily high labor costs, and looked at the disparity, and also asked the question, are there difficulties in recruiting and retaining people, and we did have a cutoff with those three high labor cost areas in the transition period.

But our pay reform proposal provides a mechanism for adding other areas, based on surveys, and based on this sort of analysis.

I do want to point out, and maybe this will be a little helpful, that with our 5-percent increase for the entry level people—for example, at Social Security, where there is a very high percentage of entry level people—during our transition period there will be people coming in with this 5-percent increase.

We have limited the 1991 budget to those three high labor cost areas, that is true.

Senator MIKULSKI. So Maryland will not be coming up this year?

Ms. NEWMAN. In the up to 8 percent, no.

Senator MIKULSKI. And even Washington, DC, won't be coming up.

Ms. NEWMAN. Washington would not.

Senator MIKULSKI. So it would give us a chance to look at this and make sure that there won't be an unintended consequence, for example.

Ms. NEWMAN. Right.

Senator MIKULSKI. With people working for the Social Security staff here rather than—

Ms. NEWMAN. Yes; Washington is not in our three high-cost areas in the transition period.

PAY EQUITY

Senator MIKULSKI. Let me ask you something that has been a long-time concern of mine, which again, the Federal Government being a model employer, is it your intention to take a look at the issue of pay equity?

Ms. NEWMAN. There are two ways we ought to look at pay equity. One, in our recruitment and selection and training process, to be sure that women and minorities are having opportunities to be recruited into the career positions, and are given the opportunity to move up.

That is one approach to looking at pay equity.

The other is the classification system. It was our belief that we needed to reform the pay system before looking at the classification system, and we have had people who have argued with us that we have done it the wrong way around, or we ought to do it at the same time.

But once we have looked at the pay system, which is part of the problem of the classification system, then we need to move in and look at the classification system.

Senator MIKULSKI. Do you intend to do that?

Ms. NEWMAN. Look at the classification system, but look at it in terms of it properly describing the jobs or work. Is it fair? Does it ensure that principles are being adhered to?

If you are asking, are we going to specifically commission a study to look at comparable worth or pay equity, it is not our intent. Right now it is our feeling that if we look at the whole system, eventually we will be asking a series of questions about fairness of the system across the board, and any unfairness would drop out of that.

We, along with the President's management improvement project, have a contract with the National Academy of Public Administration, to look at what issues we ought to be addressing when we get to look at the classification system.

Senator MIKULSKI. Well, I would really encourage you to consider a comparable worth undertaking, in the interest of equity, and I think ultimately in the issue of not only recruitment, but recycling.

Some of your best prospects for the next level job are those at another level, and we could elaborate on that, but I would really encourage you to take another look.

USE OF RETIREES IN EMERGENCIES

The other question I have deals with the flexibility in emergencies—as you know, I have a bill in about FEMA.

You know, we had Hurricane Hugo. There are retired Federal employees with a tremendous amount of skill who could have been called back into service—it is almost like a national guard—a civil servant national guard, but they were concerned about losing their retirement pay.

We had a surge in Maryland on VA mortgage applications. The deadlock was on appraisers, and we wanted to bring in some of the guys who have retired—tremendous not only expertise in appraising, but had worked for the VA themselves.

They would have stepped forward for a 90-day, or a 100-day stint, and would have felt needed, and would have been needed.

Do you have the management flexibility to deal with that, or does there need to be legislated authority, if there is a situation where we have the pool, and we would want them only for a stint,

not a stay—you know, whether it is 90 days or some other? Do you have that?

Ms. NEWMAN. I will address this in two ways, and then ask Claudia to talk about it.

One of the provisions in our pay reform proposal is to allow waivers for reemployed annuitants, both military and civilian, but our proposal is to have requests made, so that we are not——

Senator MIKULSKI. Oh, no, *carte blanche*.

Ms. NEWMAN. Yes.

Senator MIKULSKI. In other words, a waiver would come to you——

Ms. NEWMAN. Right.

Senator MIKULSKI. As the President's personnel director.

Ms. NEWMAN. On specific activities, yes.

Senator MIKULSKI. Like the FEMA, a Hugo——

Ms. NEWMAN. Yes; we are asking for that authority in our pay reform proposal.

Senator MIKULSKI. Ah-huh.

Ms. NEWMAN. We do have, you know, the possibility of temporary and short-term appointments. The problem with the retirees has been this limitation.

I don't know, Claudia, if you want to talk about other authorities that we could use under emergency——

Ms. COOLEY. I think this raises an interesting point, in terms of our proposed legislation. We have been thinking about the reemployed annuitant waiver for dual compensation purposes, which is really what you are talking about, only in a specific situation.

We have been thinking of it more in terms of very special, critical skills, but we would have the authority to regulate on that issue. As Ms. Newman said, it would very much be a case-by-case basis approach, because we are not prepared to have this as a general authority that is available whenever somebody wishes to use it. We should think carefully about how this might be applied, and the kind of situations——

Senator MIKULSKI. Right, and I'm not looking for *carte blanche*, or leaving it to the agency, because I think it could create chaos and inequities and so on.

The three areas that I am thinking of were: one, the census. They had a hard time recruiting good people. If anybody knew why the census was important, it was the retired Federal employees.

Retired Social Security folks in Baltimore would have been perfect.

Second, the critical skills or the people with experience in moving people and material, a la Hugo. Point No. 2.

Last, but not at all least, when there is a blip or whatever in the economy, and we need some good people to help actually move the paper. Like the VA appraiser, because—it wasn't to hire an appraiser, but the VA appraiser knew the criteria for qualifying for VA loans.

And I think we got that. I don't know quite how we did it at that time, and actually we opened up a backlog in Maryland—at that time it was like kind of lose it or use it. I don't remember the details, but over 1,200 loans were passed because we could get that person or two guys in for 90 days, and so on.

That is the kind of thing I am talking about.

Ms. COOLEY. We did something like this for the air traffic control situation, with the reemployed annuitants, back in the early 1980's, to bring people on quickly who had the skills, where we had a sudden unforeseen staffing need.

Senator MIKULSKI. Well, I think strikebreaking would be a different kind of problem.

Ms. NEWMAN. I was about to say, we have had to work with you on this—

Senator MIKULSKI. I am not talking about that. And I think we are clear.

In other words, I think I am clear in the kinds of cases that I was talking about, where there is also a Federal purpose—it is really a Federal purpose—census, et cetera—and as you are looking at that—and I am talking specific waiver, agency by agency, not individual case by case.

And I think that would be good.

DEPENDENT CARE

My last question, Mr. Chairman, if I may, is, Ms. Newman, I know you are interested in the dependent care issue. It is a Federal employee issue as well as in the private sector.

I know day care, of course, is for not only children but now for elderly folks. I faced it with my own father who had Alzheimer's, and dependent care helped us keep him at home with us.

I wonder what sort of activities you are doing on that, and whether you have the budgetary resources to pursue that?

Ms. NEWMAN. As you know, there is a child care initiative that has been ongoing with GSA having a certain amount of responsibility over the facilities question, but OPM over the program.

There are increases in child care programs. However, we need to look at the issue of benefits in a larger sense. It is a disappointment for me, as a matter of fact, that we have to deal with the health care issue right now, but we do, for a variety of reasons, because our preference would have been to have been able to take benefits—elder care, child care, leave, health care—and be able to put together a proposal that allows people to choose benefits based on their needs.

But we are not at that point, so that we are now looking, and will be continuing to look at child care separately. But I will say that we recognize that people have different needs, and for us just to address child care needs will not be satisfactory.

Right now the most that we are doing through our employee assistance programs on dependent care, other than child care, is referrals and information.

Senator MIKULSKI. I think that has been important.

Ms. NEWMAN. And we are doing that.

Senator MIKULSKI. Well, when we have our own conversation I would like to talk more with you about it.

I think that it is also our employee practices. I think one of the more advanced employers, in some ways, has been the U.S. military.

Ms. NEWMAN. That is true.

Senator MIKULSKI. And not only for the military personnel, but Mr. Chairman, for the civilians. You know, the military learned what they needed, and then adopted many of the techniques in their civilian corps. It has been things like flextime, first of all—flexible hours were probably one of the most important tools.

The recognition that at certain clerical levels with summers off, they could have been brought in—summer employees. But the employee returned lots of wonderful ideas. The U.S. military, which was not actually paying for services, or vouchers, but really enabled either moms or dads to do it.

So we look forward to working with you on this.

Mr. Chairman, Ms. Newman has such an interesting job I could talk with her all day, but I will kind of wrap it up now. I have my FEMA people taken care of. [Laughter.]

Thank you.

Ms. NEWMAN. Thank you.

Senator DECONCINI. Thank you, Senator, and I will tell you, it is good having you on this committee, as you are interested in the public employees, having so many of them living in your State. We have a few in ours, too, and it is very important.

SUBMITTED QUESTIONS

And I want to thank Ms. Newman for her willingness to get into these issues; and I have a lot of other questions, Ms. Newman, that I am going to ask, when your time permits, if you can, in the next week or two, have some people answer them for us, to help us make our judgments here.

Senator Domenici, I believe, has some questions also that he will submit, and we will include those in the record. Thank you very much for being with us.

Ms. NEWMAN. Thank you.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

PAY FOR PERFORMANCE

1. Q. Ms. Newman, last week when you testified before the Governmental Affairs Committee you spoke in favor of a pay system based on merit pay for performance rather than seniority. In the area of law enforcement, I believe it will be difficult to establish criteria for excellence that do not promote an unwanted quota system of arrests, or seizures, or an arbitrary selection of cases for investigation and prosecution.
 - A. The Administration is committed not only to extending pay-for-performance to most white-collar employees, but also to designing a system with sufficient flexibility to be workable. We believe that it is possible to develop performance criteria for law enforcement personnel that do not include a quota system. However, if this proves infeasible, the Administration's pay reform proposal contains sufficient flexibility to establish special occupational pay systems that do not include pay for performance. This will certainly be reviewed carefully in considering the appropriate compensation method for law enforcement personnel.
2. Q. Why would you want to eliminate pay increases based on length of service when, for some Federal employees, this is the only pay adjustment they receive that even comes close to keeping up with inflation?
 - A. We are committed to establishing a basic level of compensation that will be adequate so that employees are not dependent upon merit increases as their primary means of keeping pace with inflation. Unfortunately, there is a common misunderstanding among Federal employees that within-grade increases have been intended to ensure pay comparability or to make adjustments to counteract inflation. However, within-grade increases are not intended to increase an employee's pay so as to counteract inflation, but rather to reflect an employee's satisfactory performance and length of service. Such automatic pay increases are to be replaced by a pay for performance system under the Administration's proposal, which will include merit increases and performance awards.
3. Q. Critics of the merit pay initiative charge that this approach is driven by cost-saving motives rather than an effort to improve the system of pay. Has OPM determined if, in fact, there will be a savings to the Government from a merit pay initiative? If so, what are the projected savings?
 - A. While it is true the bill will eliminate GS pay system within-grade increases, it was not designed or intended to result in reduced expenditures. Increased productivity, of course, could result in overall cost savings. We anticipate that funding for

performance adjustments will be at least equal, as a percent of total payroll, to what an agency would have spent under the current General Schedule within-grade and quality step increase system.

GEOGRAPHIC PAY DIFFERENTIAL

4. Q. How did the Administration arrive at an 8 percent increase in pay for Federal employees in New York, Los Angeles, and San Francisco? Certainly, these are high cost-of-living areas, but so are cities such as Washington, D.C., Boston, and other areas. And why was 8 percent chosen as the magic figure? The cost of living in these areas, from the surveys I have seen, is much higher.

A. First, let me note that the locality pay concept deals with relative cost of labor, not relative cost of living. The 8 percent maximum figure is not a "magic figure" in that it does not pretend to match market rates. Rather, it represents a sizeable Administration commitment that recognizes the limited resources available to address critical pay problems. We recognize that there are a number of metropolitan areas with high labor costs and staffing problems. However, a review of a broad range of salary survey data and staffing difficulties identified New York, San Francisco, and Los Angeles as the areas in most need of immediate help.

The Administration's reform proposal will allow for expanded geographic differentials in the future.

HATCH ACT

5. Q. As you know, the Senate Governmental Affairs Committee reported legislation, S. 135, to reform the Hatch Act. I strongly support this bill and believe it is a good, bipartisan piece of legislation which clarifies the confusing rules currently governing Federal employees' ability to exercise political rights. If the Congress enacts the bill in its current form, what action would you recommend the President take regarding the legislation?

A. As I indicated in my testimony last July before the Committee on Governmental Affairs, there are two provisions in S. 135 that are particularly troubling to the Administration. First, allowing Federal employees to hold office in a political party would be a complete departure from the principle of political neutrality for the civil service. Second, allowing Federal employees to solicit contributions for partisan purposes would eliminate valuable protections against political coercion. The statement of Administration Policy sent to the Senate advises that the President's senior advisors would recommend veto.

6. Q. As you know, the legislation as reported by the Committee permits Federal workers to engage in some political activities. It does not permit them to do

so during working hours or while in Government offices. In addition, Federal workers would not be permitted to raise money for candidates or PAC's, other than their union PAC's, nor seek partisan political office.

This bill is far more reasonable than the sweeping bill passed by the House. If the President is to veto the bill in its present form, what further changes to the legislation would make it acceptable to the President?

- A. Although S. 135 clearly is less objectionable than the bill passed by the House, I question whether there is a real need at this point for any legislation. I believe that it is, at the least, premature to pass legislation when no one knows whether the vast majority of Federal employees favor or oppose a significant relaxation of Hatch Act prohibitions. I also believe that we should try to eliminate administratively whatever confusion there may be about the meaning of the rules that govern partisan political participation before deciding to make statutory changes.

As you know, the courts in the Blaylock and Biller cases showed us a clearer way than traditionally has been available to differentiate between permitted and prohibited partisan political activity. We are now developing amendments to Part 733 of Title 5 of the Code of Federal Regulations, in conjunction with the Office of the Special Counsel, to try to articulate more clearly the Hatch Act rules in accordance with this recent judicial guidance. We expect to complete this work by the end of the year.

Under our reading of Blaylock and Biller, a Federal employee is free to engage in a broad range of political activities so long as the activities are not carried out in concert with a partisan political party or candidate. Thus, for example, a Federal employee is free to create and produce personally and independently, while off duty, flyers in support of a partisan candidate for political office, and subsequently to distribute them during a non-duty period in a parking lot of a shopping mall. This example, I believe, reflects the reality that the Federal employee already has substantial political rights. The employee simply is prohibited from political participation in concert with a partisan organization or candidate.

ENTRY LEVEL PAY INCREASE

7. Q. What is the rationale for a 5 percent increase nationwide for all GS-5 and GS-7 entry-level positions? How was the 5 percent figure arrived at and why not higher in certain areas versus others?
- A. Once again, it should be noted that the 5 percent figure does not pretend to match market rates. Rather, it represents a sizeable Administration

commitment that recognizes the limited resources available to address critical problems in filling these entry-level jobs with quality candidates.

The 5 percent increase is provided nationwide because college entry-level jobs are often recruited for nationally. This immediate relief provision is in response to a system-wide problem under the General Schedule. Our intent is that this temporary provision will eventually be superseded by permanent provisions of the new National Pay System. The National Pay System will use a combination of basic pay, differentials, and allowances more tailored to labor markets.

RECRUITMENT AND RETENTION BONUSES

8. Q. On the Administration's initiative to authorize bonuses for recruiting, retaining, and relocating employees with critical skills, what types of bonuses does this proposal envision and would an agency have to seek the approval of OPM prior to granting such a bonus?

A. Recruitment and relocation bonuses may be authorized to alleviate difficulties in filling shortage-category positions. Retention allowances may be authorized to avoid the loss of essential employees. A recruitment or relocation bonus or retention allowance cannot exceed 25 percent of an employee's base pay.

Agencies will ultimately decide on the amounts and kinds of bonuses and allowances to grant employees. OPM will develop regulations setting the boundaries of their use, but expects to delegate these authorities to agency management for case-by-case decisions.

PUBLIC SERVICE SCHOLARSHIP PROGRAM

9. Q. The President's Budget also proposes legislation for later transmittal to establish a public service financial assistance program for college students in return for a commitment of Government service upon graduation. How was the \$900,000 for this program, which is specified in the President's Budget, calculated as the first year cost for this program?

A. Fiscal year 1991 program plans would require \$625,000 in scholarships, \$213,000 in administrative costs, and \$62,000 for orientation and training.

10. Q. What type of financial assistance does the legislative proposal envision and for what period of Federal service?

A. Students would receive a grant of up to \$10,000 per year for undergraduate education and up to \$15,000 per year for graduate programs. Graduates would join the Federal service and be obligated to serve 1 year for each academic year funded.

11. Q. It does not appear that this \$900,000 will go very far. How many scholarships are you contemplating and in what specific positions?

A. The \$900,000 proposed for the fiscal year 1991 Budget would support a pilot program through which selected undergraduate students would receive scholarship grants of up to \$10,000 or, for graduate students, up to \$15,000 per year. The program would give special consideration to outstanding students who intend to pursue a public service career, and could be focused on students pursuing careers in "shortage category" occupations.

With the annual selection of an additional 50 students and replacements for losses, the program would grow to a total of 200 by the fourth year with a projected cost of \$3.6 million.

OPM FY 91 BUDGET

SALARIES AND EXPENSES

12. Q. In fiscal year 1991 you are proposing a budget of \$113,739,000 and 1,999 positions for your salaries and expenses activities. This amount represents an increase of \$2.944 million and 27 positions over the fiscal year 1990 level. Included in this amount are programmatic increases totalling \$3,198,000; inflationary adjustments totalling \$2,334,000, and programmatic reductions of \$1,199,000. Like other agencies, your budget requires absorption of 50 percent of the costs associated with the 1991 pay raise. What impact will this absorption have on your ongoing programs and where do you specifically plan to take the reductions to cover the costs of the pay raise?

A. In our proposed budget, we will be absorbing \$956,000 of the proposed 3.5 percent January 1991 pay raise, \$225,000 of the proposed executive pay raise, and \$403,000 of the expected inflation in non-salary costs, for a total absorption of \$1,584,000 in our Salaries and Expenses appropriation. Likewise, our retirement and insurance programs funded through the Limitation on Transfers from Trust Funds will be absorbing \$645,000 for General Schedule pay, \$92,000 for executive pay and \$299,000 for inflation--a total absorption of \$1,036,000.

OPM managers will absorb their proportionate shares of the pay raise. Possible actions on their part may include leaving positions vacant and reducing other costs such as travel, training, supplies, and equipment.

PROGRAMMATIC INCREASES

13. Q. Your budget includes an increase of \$1.0 million and 4 positions to improve service to the public at the point of contact. This program centers around training. Why is the program necessary--do you have

evidence that service to the public is not being properly provided?

- A. While we do not have statistical evidence relating to the quality of service being provided to the public, there is certainly sufficient anecdotal evidence to support the widespread perception that improvement is needed.

One of the task forces of the National Commission on Public Service (the Volcker Commission) has focused quite properly on the need for government leaders and managers to work together to ensure not only that service to the public is the central goal of government, but also that those who perform the service are given the opportunity to develop fully the talents to perform it well.

OPM is seeking to improve the image of public service by concentrating first on the front-line workers and making them accountable for the manner in which they deal with the public, and following up with recognition for good performance and sanctions for performance that is unacceptable.

- 14. Q. Which specific agencies will be targeted for review?
 - A. No specific agencies will be targeted by the program. The responsibility for identifying and meeting agency training needs rests with the agencies. OPM's role is to provide assistance and tools needed to help the agencies accomplish this goal.
- 15. Q. When do you expect to complete the project?
 - A. This is an FY 1991 project. We anticipate that the major portion of the effort in terms of OPM's leadership role will be completed in FY 1991.
- 16. Q. Will the project be contracted out and if so, why?
 - A. Leadership and direction will be retained in OPM. Components such as course development may be contracted out.
- 17. Q. Do you have any authority to ensure that agencies comply with your recommendations?
 - A. OPM will take the initiative to exert leadership in the areas of employee education and development, information and resource sharing, publicity, and outreach.
- 18. Q. If not, how do you plan to obtain agency commitments to change their training techniques so that the public is better served?
 - A. We believe that the actions planned in the categories cited above will help to ensure agency commitments to training and education initiatives.

JOB SHARING

19. Q. You are proposing a reduction of \$250,000 for the job sharing program. Your justification states that you are presently designing a clearinghouse to promote the job-sharing concept and match jobs and sharing applicants.
- A. Until the results of our 1-year project are in, we are not really in a position to say what else is needed in the way of support for job sharing.
20. Q. Without continuation of this program, who will operate the clearinghouse and update employee applicants?
- A. Clearly, the OPM-run clearinghouse cannot run without OPM support. Our expectation is to continue the job-sharing project in FY 1991 within resources allocated to OPM. The initial start-up costs (designing the automated system, writing promotional materials, etc.) will not be continued in FY 1991. During FY 1991, staff time will be needed to oversee the automated system and solve any problems which arise. In addition, during the operation of the 1-year project, OPM staff will continue to promote the program.
21. Q. Who will monitor the effectiveness of the program without additional Federal funding?
- A. As I noted earlier, we expect to continue the job-sharing project in FY 1991 within resources allocated to OPM. Toward the end of FY 1991, staff time will be devoted to evaluating results in order to determine whether to continue, expand, or terminate the project.

EMPLOYEE BACKGROUND INVESTIGATIONS

22. Q. You are proposing an increase of \$389,000 and 17 positions to undertake an additional 36,000 background investigations on potential employees in fiscal year 1991. Your justification states that these funds will reduce your backlog of cases to 45,000 at the end of each year. What is your current backlog and how long, on average, does it take to complete a background investigation?
- A. The increase in funding OPM seeks is to complete an additional 36,500 National Agency Checks and National Agency Checks with Inquiries (NAC/NACI's) for persons who have been appointed to nonsensitive positions in Federal Agencies. These are not background investigations which are performed on a reimbursable basis for sensitive positions in agencies and do not require funds appropriated to OPM.

The current level of NAC/NACI cases on hand is 83,000 of which 38,000 cases constitute a backlog above the normal working level of 45,000.

On average, it takes approximately 4 months to complete a NAC/NACI case if there are no major delays in receiving responses to our inquiries.

22. Q. What should be the optimum turnaround time on these background checks and how will the time it takes to complete an investigation be reduced, if at all, if the \$389,000 and 17 staff are provided?
- A. The optimum turn-around time for NAC/NACI cases would be 90 days. With additional staff and funding, the turnaround time can be reduced because OPM can initiate follow-ups faster and thereby reduce the total time it takes to do these cases.
24. Q. Is it realistic to propose and implement a program which will eliminate the backlog altogether? If so, what would the costs associated with such a program be?
- A. The additional funding OPM is seeking for these cases is to eliminate the existing backlog and reduce the level of cases on hand to 45,000. There will always be a certain level of cases on hand in process at any given time since OPM must await the responses to its inquiry forms.
25. Q. Have agencies instituted their own background investigation programs because of the length of time it has been taking OPM to complete the checks? If so, which agencies have done so?
- A. Agencies have not instituted their own programs to conduct NAC/NACI's.
26. Q. Have agencies lost potential applicants because of the time it takes to complete investigations? If so, what number of potential employees do you estimate were lost as a result of your backlogs?
- A. The overwhelming majority of NACI cases are not on applicants but are initiated upon appointment to a non-sensitive position. If a serious issue of suitability is found, action may be taken during the employee's probationary period.

Each year, the names of about 10,000 applicants are referred to the Investigations Group by OPM's area offices when a question of suitability for a Federal position arises. These applicants are removed from the area office register until a determination on their suitability can be completed. The length of time it takes to process a NACI could suspend an applicant's eligibility on a register by as much as three months.

As a result of suitability determinations, approximately 6,000 applicants will be found to be acceptable and returned to registers. During the intervening period, some applicants may have sought employment elsewhere, but OPM does not have data on this.

PAY REFORM STUDIES

27. Q. You are requesting an increase of \$1,300,000 and 10 full-time positions to undertake pay reform studies in fiscal year 1991. If pay reform legislation establishes, among other things, geographic or locality-based pay, and job reclassification, will these funds be sufficient for OPM to conduct surveys in a timely manner and make the changes which will be expected?

A. Unless unanticipated changes are legislated, these resources will be sufficient to accomplish the necessary studies and to make the required changes called for in the proposal. While the actual surveys of non-Federal pay will be conducted by the Bureau of Labor Statistics, this funding will also allow us to provide important technical advisory services necessary to support the BLS surveys.

28. Q. Are these funds needed if pay reform legislation is not enacted this year?

A. We would not need the full funding or staffing increases in FY 91 if pay reform legislation is not enacted this year. However, even without enactment of pay reform legislation, we would still require additional funding and staff to:

- (1) handle the expected increase in the number, and complexity, of special rate requests that would occur in the absence of pay reform (the number of positions covered by special rates increased over 280 percent between 1985 and 1989);
- (2) support the study and development of new pay and classification systems for special occupational categories, such as law enforcement and health care; and
- (3) continue research into determining the most effective fundamental compensation system for Federal employees, and the development of specific proposals (including legislation) flowing from that research.

HEALTH PROMOTION AND DISEASE PREVENTION

29. Q. Your fiscal year 1991 budget proposes to eliminate the \$718,000 made available in fiscal year 1990 for the development of health promotion and disease prevention program for Federal employees. Your justification states that you plan to submit a report to the Congress on this subject early in the next fiscal year. Can you tell us about your findings so far?

A. As a supplement to our regular appropriations, OPM received \$349,000 in FY 1989 and up to \$718,000 was provided in the FY 1990 appropriation for the purpose of demonstrating successful means of implementing

Federal health promotion/disease prevention (HP/DP) programs. These funds are and will be used for:

1. Case study evaluations of up to 12 selected Federal agency HP/DP programs. As indicated in the budget justification, a final report of case studies is to be completed by early FY 1991. This report will provide the initial findings of this program.
2. Technical assistance to Federal agencies for the purpose of developing and implementing innovative HP/DP programs and practices, beginning in FY 1991.
3. A research analysis regarding the impact of HP/DP programs on managing health care costs, including a review of those companies currently (or considering) linking employee HP/DP participation to benefit administration, and how these findings might be linked to future FEHB reform proposals.
4. A national HP/DP program conference in FY 1991 which would showcase the findings of our 1989-90 studies by focusing on innovative and successful health and fitness programs in the Federal sector, and by exploring the relationship between these programs and benefits administration.

30. Q. Can you explain why you are proposing elimination of this program in FY 1991? Do you believe there is a future role for OPM in this area or do you believe this activity should be completely borne by the agency employee assistance programs?

A. As part of its ongoing work to encourage agencies to consider establishing health services programs, OPM will continue providing technical assistance, policy guidance, and special projects in health and fitness at a level provided in our regular appropriations. Agencies will continue to bear operating costs for the development and implementation of ongoing employee HP/DP programs.

In OPM's judgment, the results of the studies undertaken with FY 1989-90 supplemental funding, a continuation of OPM's regular level of support for HP/DP initiatives, and the strong agency commitment to enhance employee health programs will achieve comprehensive and successful HP/DP programs across Government lines. Therefore, further financial supplementation is not necessary.

AUTOMATED DATA PROCESSING

31. Q. In fiscal year 1991, your budget is being reduced by \$300,000 in nonrecurring costs associated with a one-time study of OPM's long-term ADP requirements. Has

the study been completed, and if so, what were your findings as a result of this study?

- A. Based on the FY 1990 funding for a long-term ADP study, OPM entered into an Interagency Agreement with GSA's Federal Information Resources Management (IRM) Planning Support Center to provide us with assistance in developing a Strategic (5-year) IRM plan. Contractor staff, obtained through this Interagency Agreement, are currently working with OPM staff on this project, and we expect that a completed plan will be available in August.
- 32. Q. What are the costs, and how long will it take for you to implement a long-term ADP plan?
- A. Because the plan is not complete, we do not yet know what all of the findings will be or what the full implementation costs will be. The plan will, however, cover the 5-year period FY 1991 through FY 1995. Once developed, we expect to update the plan annually to ensure that we maintain a clear strategic direction in this critical technology area.
- 33. Q. Have any funds been requested to implement the ADP plan in FY 1991? If not, when do you expect to request funds to initiate implementation?
- A. We have not included major ADP funding requests as part of our FY 1991 budget because the study is not complete. We may, however, include some funding requests in our FY 1992 budget submission to initiate work that will be compatible with what we see as our long-term direction, e.g., to fund data center renovation and capacity upgrades. We may also add a funding request in our FY 1993 budget as we move into full implementation of the plan.

PRESIDENT'S ADVISORY COMMISSION ON THE PUBLIC SERVICE

- 34. Q. You are requesting an increase of \$250,000 and 4 positions to establish a President's Advisory Commission on the Public Service. Your justification states that this commission will be established by Executive order and its purpose will be to improve the image of public service so that the Federal Government will be better able to recruit and retain individuals for Federal employment. Has the Executive order been issued as yet? If not, when do you expect this to occur?
- A. No, the Executive order has not yet been issued. We have submitted a working draft to OMB for review, and are still negotiating. We hope to start the formal review process on such an Executive order within the next month.
- 35. Q. Will this be a temporary or permanent ongoing commission? How long do you expect it to be in operation?
- A. We would expect the Advisory Commission to be a long-term activity, focusing initially on recommendations

coming out of the Volcker Commission studies and report, and later identifying other public service issues and concerns requiring national attention.

36. Q. Can you explain specifically how this commission will assist in the improvement of the image of public service?

A. We propose that the Commission be composed of distinguished Americans who can help identify and address issues of concern to the Federal public service by raising these issues to the attention of the President, the Congress, the Office of Personnel Management, and the general public.

VOTING RIGHTS OBSERVATIONS

37. Q. You are proposing a reduction of \$106,000 in costs associated with voting rights observations in fiscal year 1991. On what basis was this reduction calculated and what factors lead you to the conclusion that voting rights observations will decline in fiscal year 1991? What is your total budget associated with these activities in FY 1990?

A. Under the Voting Rights Act of 1965, as amended, OPM's primary responsibility is to assign personnel, as requested by the Department of Justice, to observe elections and prepare related reports. In addition, OPM appoints examiners to prepare and maintain lists of eligible voters in States or other political subdivisions designated by the Department of Justice, appoints hearing officers to adjudicate challenges to voters, and receives complaints from eligible voters claiming denial of the right to vote.

Our FY 1991 request for voting rights activities is \$1,660,000, a decrease of \$106,000 from the FY 1990 budget of \$1,766,000. We project a decrease in expenditures for voting rights observations based on historical trends in the number of elections and observers that may be required by the Department of Justice.

FEDERAL EXECUTIVE BOARDS

38. Q. In fiscal year 1991, you are proposing a reduction of \$200,000 in the balance of funding for the Federal Executive Boards. Can you explain the basis for this reduction and tell the committee if other agencies are and plan to continue to fund these boards?

A. After Congress reduced our original request to fully fund the Federal Executive Boards and after reductions as a result of the Gramm-Rudman-Hollings sequestration, we have \$200,000 remaining in FY 1990 for one-time improvements of the twenty-six Federal Executive Boards across the country. Several proposals are currently being considered to enhance the operations of the Federal Executive Boards.

The Federal Executive Boards have been funded by lead agencies in each of their locations since 1971. We expect this support will continue for the future.

MANDATORY PAYMENTS

39. Q. In fiscal year 1991, mandatory payments are expected to increase by \$456,000. Did you assume any increase in this activity for the proposed postage increases? If not, what do you expect these increased costs to be that have not been budgeted for in FY 91?

A. We did not request an increase in our funds for Mandatory Payments for the proposed postage increases. We estimate the proposed increases would increase costs to our Salary and Expenses appropriation by \$375,000, to our Limitation on Transfers from Trust Funds by \$320,000, and to OPM Revolving Fund Programs by \$159,000. The Office of the Inspector General Salaries and Expenses costs would increase by \$3,000, and Limitation on Transfer from Trust Funds by \$1,000.

EXECUTIVE TRAINING

40. Q. What amount is included in your FY 90 budget for the Federal Executive Institute? Who qualifies for training at this Institute and what portion of the costs are reimbursed from other agencies? How does the FY 90 budget compare to the Institute budget for FY 91?

A. Total Revolving Fund obligations included in the FY 1990 budget for the Federal Executive Institute are \$4,510,000.

Participation in the program at the Federal Executive Institute is based on the following nomination criteria:

First Priority - Members of the Senior Executive Service (and equivalent pay systems);

Second Priority - GM-15 high potential managers and those GM-15's enrolled in or who have completed an approved SES Candidate Development Program;

Third Priority - A select number of executives from State, local and foreign governments and non-profit and private Sector organizations.

Programs of the Federal Executive Institute are funded in their entirety through the Revolving Fund. All costs are reimbursed from agencies and organizations sending participants through the programs.

The total FY 1991 budget for the Federal Executive Institute is \$5,158,000 compared to \$4,510,000 in FY 1990. The \$648,000 change is due primarily to increases in pay, inflation, and operating costs.

41. Q. Have you conducted an analysis of the benefits provided through the Institute? If so, can you share your findings with the Committee?

A. The Federal Executive Institute asks all participants to evaluate every aspect of the program, process, and content, as well as applicability to their specific job assignments. The executives have always indicated the program was relevant to their careers and organizational effectiveness. Departments and agencies concur with this conclusion and continue to send their most senior executives through the program.

Also, in January of 1990, a project was started by the OPM's Office of Personnel Research and Development to set up an objective evaluation process to assess the impact of the Federal Executive Institute curriculum on organizational effectiveness and performance. As part of this project, the Office of Personnel Research and Development will address the following questions: (1) What is the impact on an organization's productivity of the executive development training activities provided by the Federal Executive Institute? (2) What is the effect of the Federal Executive Institute curriculum on one's values? (3) What is the effect of the Federal Executive Institute curriculum on one's attitudes? (4) What is the effect of the Federal Executive Institute curriculum on one's behavior (performance)?

The Project is scheduled to complete the assessment and recommendation phases by December 31, 1990.

42. Q. What other types of executive training are offered by OPM, what are the costs to the agencies, and how does this training relate to the training provided by the individual agencies?

A. Other non-residential executive training provided under the sponsorship of the Federal Executive Institute includes:

Senior Executive Service Orientation - This program is designed to assist Career and Non-Career, recently-appointed members of the Senior Executive Service in meeting Administration objectives. The two-day training program includes lectures, discussions, question and answer sessions, and opportunities for interaction and networking. In closing, there is a special ceremonial Swearing-In and Reception. The cost of this program to the agencies is \$220 per participant.

Senior Executive Service Candidate Development Program - This program provides SES candidates with the formal training and development necessary for certification by the OPM Qualifications Review Board. The program consists of the Management Excellence Inventory (MEI) and development of Individual Development Plans (IDP), four months of developmental work assignments, and five weeks of formal inter-

agency training that includes completion of the two-week Washington Executive Seminar (explained below) and four quarterly seminars addressing Strategic Planning and Executive Leadership, Administering Money and Material Resources, Utilizing Human Resources, and Reviewing Implementation and Results. The cost to the agencies of the Washington Executive Seminar is \$1,900 per participant and the total cost for the four quarterly seminars is \$500 per participant.

The LEGIS Fellows Program - This program provides assignments for personnel whose current or prospective positions may require working knowledge of the operations of the Congress. The Fellows receive instruction and hands-on experience in a congressional office through training and development activities consisting of three weeks of intensive briefings on the operations and organization of the Congress; an assignment, full-time, on the staff of a Member, committee, or support agency of the Congress; and frequent seminars during the work assignment on Capitol Hill. For some agency personnel (e.g., management or executive development, and SES personnel), the program provides training essential to their individual development plans. The cost to agencies for these programs are \$3,000 per participant for a six-month placement and \$4,200 per participant for a one-year placement.

Washington Executive Seminar - The Washington Executive Seminar (WES) provides "basic training" for the new executive and update or refresher training for the incumbent executive. Attending the WES satisfies the requirement of FPM Letter 412-4 for SES candidates to participate in an interagency, executive-level training experience. The cost to agencies for this two-week program is \$1,900 per participant.

Negotiating Skills for Executives - Executives learn the strategies and tactics used by today's most effective negotiators and how to defend against them; when and how to make necessary concessions and avoid making unnecessary ones. They learn how to prepare thoroughly for negotiations, and how to deal with opponents who intimidate or harass. The cost to agencies for this one-day program is \$245 per participant.

All costs are fully reimbursed from agencies and organizations sending participants through the programs.

The SES Orientation and LEGIS Fellows are unique Government-wide executive development programs. The Senior Executive Service Seminar and Negotiating Skills for Executives complement and supplement agency executive development activities.

JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

43. Q. What is the Joint Financial Management Improvement Program and how is the OPM share of its costs calculated?

A. The Joint Financial Management Improvement Program (JFMIP) is a joint undertaking of the Office of Management and Budget (OMB), the Department of Treasury, the General Accounting Office (GAO), and the Office of Personnel Management (OPM) to work cooperatively together and with agencies to improve the Government's financial management practices. This cooperative effort was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General. As a formal organization, the JFMIP was authorized by the Budget and Accounting Procedures Act of 1950. The Civil Service Commission (CSC) was invited to join the program in 1966 to provide leadership in personnel matters affecting the financial management community, such as recruiting and training of financial management personnel and improving job classification standards. The Office of Personnel Management replaced the Civil Service Commission on the JFMIP in 1979 as a result of the Civil Service Reform Act.

Costs for the JFMIP are divided equally among the four participating agencies (OMB, Treasury, GAO, and OPM). OPM's share of the total cost is 25 percent.

GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEES HEALTH BENEFITS

44. Q. When costs of health benefits are increasing and new enrollees and annuitants seem to be increasing as well, why is the budget request for this program decreasing from \$3.7 billion in FY 1990 to \$3.5 billion in FY 1991? What portion of unobligated balances in this fund do you plan to carry forward into FY 1991? What portion will be used to offset the appropriated dollars?

A. Given projected enrollment growth and premium rates negotiated for the 1990 contract year, we project that the unobligated balance will grow to \$780 million by the close of FY 1990. Approximately \$400 million of the unobligated balance to be carried forward will be used to fund benefits in FY 1991. The reduction in appropriations reflects the use of these unobligated funds already available in the account.

COMBINED FEDERAL CAMPAIGN

45. Q. The order of listing and organization in the CFC brochure is done by a lottery system. Does the order of listing of organizations in the brochure have an effect on the amount an organization receives from the CFC?

- A. We have only two years' experience with a National List in which the order is mandated. The 1989 campaign results are presently being submitted.

Reviewing the 1988 campaign results, the last group in the national section of the list was "Unaffiliated Agencies," which received over \$14 million in designations. Prior to 1988 we did not collect specific data on national unaffiliated agencies. It was only collected for "Local Unaffiliated Agencies." Therefore, there is no valid comparison that we can make on the impact of being the last group on the National List.

From our initial review of the data received to date for 1989, the International Service Agencies federation, which was last on the list, had a 19.6 percent decrease in monies received. However, there are no data available to determine with sureness that this loss was due exclusively to their placement in the brochure. It appears highly probable that the two disasters in the United States in the midst of the campaign, Hurricane Hugo and the northern California earthquake, had an impact on donors' traditional giving habits. Also, in 1989 there was not the significant media attention given to international disasters, such as the African famine relief efforts in the early 1980's, which brought the international agencies to the attention of donors.

The National United Service Agencies federation was seventh on the 1989 list and suffered a loss of 39.7 percent, but this federation also lost a number of its agencies to the new Environmental Federation of America. In contrast to those two federations which lost money, the National Unaffiliated Agencies which was eight on the 1989 list had a 37 percent increase.

The American Red Cross, which was sixth on the list, had a large increase from \$1 million in 1988 to \$6.7 million this year. There was a variety of reasons for this substantial increase, including better reporting of this agency's receipts and the impact of two natural disasters in the midst of the 1989 CFC on employees' giving habits. Its placement of sixth on the list did not appear to have any adverse effect on it.

At this time, it does not appear that we can conclude that a group's placement on the list will necessarily be the sole determinant of its share of campaign monies.

46. Q. Have you considered insuring that those who receive late listing in one year's brochure are given precedence in a subsequent year?
- A. Rotation of the order of listing has been proposed. OPM is looking into this as one possible way to ensure that, if there is any adverse impact because of a group's placement, all groups get, over time, an

equal chance at attracting the donors' support by being at the front of the brochure.

There is a serious problem with this approach. Local groups, which now are listed after the national groups, should go ahead of the national groups in alternative years. This approach, which has been called "flipping the list," raises a new problem.

Both national and local groups wish to be at the very front of the brochure. This means that besides flipping the list, it would also have to rotate. Therefore, with no increase in the number of national federations, a highly unlikely assumption, annually flipping the list and rotating it would mean that it would take one group 17 years to go from last to first.

47. Q. Have you considered redesigning the campaign brochure so that organizations who receive late listing would have an earlier reference? Some type of an index with an opening paragraph for each federation is one possible alternative to this problem.
- A. We have been telling the various participating groups and will emphasize during the regional workshops a variety of methods to make the brochure more user friendly.

Campaigns may use color coding to lead the employee easily to the section of the brochure that includes organizations in which he or she might be interested. The coding would be explained at the beginning of the brochure. We have also suggested having thumb cuts, as found in dictionaries and encyclopedias, or tabs to identify the location of the various groups.

Another approach, which certainly would ensure that every group is on the first page, is a newspaper format. With this method each group is listed on the front page, as in a newspaper, with the remainder of the group continued on an inside page.

This approach, which has a good deal to offer, has already raised concerns among the participants because they claim that studies show that newspaper readers normally look at the story in the upper left corner first. They question how it would be decided which of the groups would get this desirable location on the front page.

In 1989 OPM did authorize local campaigns the option to have an index to the campaign brochure. We have heard that this method met with mixed success.

OPM also has some concern with the emphasis on the federations getting additional prominence in the brochure at the expense of the unaffiliated agencies. Allowing the federations to have opening paragraphs explaining their purposes will be at the expense of the unaffiliated agencies which would not have the same opportunity. OPM is aware that there are many

independent agencies that are extremely popular with the Federal donor. In reviewing the preliminary 1989 data, unaffiliated agencies are the third most popular recipient of the Federal donors' designations.

For this reason we would prefer a more even-handed approach which would treat the federated and non-federated agencies the same.

48. Q. Current regulations state that in order to be eligible as a national organization, an applicant must demonstrate that it provides in 15 States or overseas "real services, benefits, or program activities over a three year period." What standards does OPM use in enforcing this requirement?

A. We have taken as our basic position the guidance in the Conference Report to the CFC legislation which states that real services are more than "de minimis" services. OPM has interpreted this to mean that a voluntary agency must provide more than services which are delivered exclusively through the mails or "800" telephone numbers.

We rigorously review each applicant's documentation. In those cases where, in spite of a self-certification that the voluntary agency does provide services in 15 States or overseas, we found that the application did not support the certification, we have challenged them and kept such groups off the National List.

In those cases where it appeared that the group did not understand the criteria and were really a local agency, we have referred them to appropriate local campaigns.

49. Q. Has OPM considered requiring a minimum of charitable receipts and/or activity to enforce the "real services" requirement?

A. Yes, we have considered an approach which would require a minimum level of receipts or services, but have concluded that it would have significant adverse impact on some agencies. Such a standard would unfairly discriminate against smaller national organizations which have a limited base of support but are providing vitally-needed services and programs throughout the country and around the world.

Additionally, this might violate the spirit, if not the letter, of the CFC legislation, which requires that the CFC eligibility criteria remain similar to the criteria in the 1984 regulations.

OFFICE OF THE INSPECTOR GENERAL

1. Q. The total salaries and expenses budget for the Office of Inspector General will increase by \$2,607,000 and 26 positions over the FY 1990 level. Of this amount, you are requesting programmatic increases totalling

\$1,928,000. Can you please provide the Committee with a priority ranking of the 1991 initiatives?

- A. The priority of our requests is a function of the savings which we believe can be generated through our activities. Based upon the experiences of agencies with established investigations programs, we project that an appropriately funded investigations function in OPM ultimately could obtain recoveries and restitutions of fraudulently-paid monies in the range of \$5-10 million annually. Therefore, we would identify the programmatic increase for expanding the investigations activity as our highest priority.

Prior to the creation of the statutory Office of Inspector General in OPM in 1989, there were no provisions for the comprehensive, systematic, and independent audit of OPM's administration of the retirement and insurance programs. Our preliminary work in this area, as well as the experience of Offices of Inspector General in other agencies, leads us to believe that such audits would produce very substantial savings by: 1) improving the financial management practices through which OPM administers the \$49 billion in annual payments made to health and life insurance carriers and annuity recipients; 2) strengthening the controls in the benefits adjudication processes; and 3) increasing the attention devoted at the administrative level to resolving erroneous or inaccurate insurance and retirement claims. Therefore, we would place this portion of our Salaries and Expenses request as our next highest priority.

We believe strongly that the requested increase for audits of OPM activities outside the retirement and insurance program areas is fully warranted by reference to the increased volume of work which OPM is conducting through contracts. For example, the contracting program which provides Federal agencies with training course development services has grown tenfold in the past 5 years, and is now doing approximately \$55 million of business per year. This program was identified last year by OIG and agency management as being vulnerable to manipulation and abuse, and our current initial audit effort bears out this conclusion. Other OPM contracting initiatives have grown as well, and our audit resources available to support them are not adequate. We are characterizing this request as third priority only because we do have an internal audit program in place, and operating effectively, albeit with limited resources.

CRIMINAL INVESTIGATIONS FUNCTION

2. Q. In fiscal year 1991, you are requesting an increase of \$350,000 and 4 positions for the development of a nationwide caseload system to investigate fraud associated with the OPM retirement and insurance programs. Can you please tell the Committee what this project will entail and how it will enable you

to detect and/or reduce the number of fraud-related activities?

- A. At the FY 1990 funding level of \$300,000 our investigative capacity is limited in the geographic sense to cases in the Washington, D.C., metropolitan area. In addition, a disproportionately large share of our resources must be devoted to relatively minor employee misconduct cases and issues covering management practices, which are on the borderline of our jurisdiction. The programs in which fraud is most likely to occur, based upon the experience of the Inspectors General of other agencies with similar missions, are the Federal Employees Health Benefits Program, which offers health insurance to some 9 million current and retired Federal employees and their family members through contracts with over 300 insurance carriers nationwide, and the Civil Service Retirement System, which pays benefits to 2.2 million retired and disabled workers and their survivors. In FY 1991, total expenditures by OPM for these programs are projected to exceed \$49 billion. Payments by the carriers to health care providers (physicians, hospitals, clinics, laboratories, and medical supply services) are considered to be charges against the Federal contract. False or fraudulent claims by the providers are thus subject to the Federal fraud, false claims, false statements, and mail fraud statutes. OPM pays annuities under the retirement system directly to qualifying individuals, and thus, disbursements induced by fraud or misrepresentation are covered by the same statutes.

The posture of these programs today is equivalent to that of similar programs in other agencies just after the passage of the Inspector General Act of 1978, to the extent that there has been no systematic effort to search for fraud, to prosecute culpable parties, or to use such laws as the Program Fraud Civil Remedies Act or the False Claims Act to recoup Federal funds which have been paid improperly. This is precisely the role which the investigations function of the Inspectors General was created to fulfill. With adequate support, the Inspectors General in the agencies which operate insurance, retirement, or disability programs have developed caseloads each of which generate hundreds of indictments per year and sustain annual recoveries of \$5-10 million. Given that OPM's retirement and insurance programs are larger than any others in the Federal sector with the exception of Social Security and Medicare, we believe these levels of investigative results are readily attainable by our office over time.

3. Q. Can you give the Committee some idea of the fraudulent activities you have uncovered over the past 6 months?
- A. Our current investigative caseload provides, on a small scale, a reasonable sample of the range of issues we would expect to be able to develop with the

increased resources we are requesting for fiscal year 1991. Among the cases now under investigation are the following:

- Numerous cases of annuities being paid improperly, such as to deceased persons whose deaths have purposely gone unreported by their survivors, or to persons who retired on disability status but have since recovered their health and no longer meet the criteria to receive an annuity.
- Fraud by an OPM contractor in charging higher rates than those authorized for certain categories of services.
- Fraud by a physician in submitting false claims to several insurance carriers for services allegedly rendered to Federal employees.
- Fraud attributable to a major insurance firm participating in the Federal Employees Health Benefits Program for processing false claims for health care services.
- Theft of large quantities of supplies from an OPM warehouse by an agency employee.
- Multiple cases of violations of the conflict of interest statutes by OPM employees.
- Fraud on the part of a Federal employee who submitted fabricated claims for medical supplies and services to a FEHB insurance carrier.

4. Q. You expect your work load to increase substantially in fiscal year 1991. Investigative cases will quadruple and audit reports issued will increase by 30 percent. What type of audit schedule have you developed for FY 1991 and how does this compare to the current schedule?

A. The FY 1991 audit schedule is not yet fully developed, in terms of identification and scheduling of specific projects, which will necessarily depend upon the resources we receive. However, our funding requests are based upon the following projections of audit program activity:

1. Trust Fund Audits. The requested resources will allow us to conduct audits at a rate which would provide for a complete audit of each insurance carrier in the Federal Employees Health Benefits Program within a five-year timeframe, which corresponds to the records retention period specified by OPM's contracts. [In effect, carriers' operations become unauditable after that time.] Under the current resource structure, we cannot perform audits of all the carriers on a cycle which is short enough to ensure that disallowable costs are identified in time to be recovered.

2. Audits of OPM's operation of the retirement and health and life insurance programs. This activity was established in FY 1990, with the objective of providing thorough, systematic audit coverage for the largest OPM programs (an estimated \$49 billion in expenditures for FY 1991) in a manner which meets the minimum standards for auditing for Federal programs, as established by the General Accounting Office. The 1990 level supports startup activities, which have taken the form of surveys of the major program components to provide information on which to base planning of the on-going audit effort, as well as a limited number of complete audits of those aspects of the retirement and insurance operations which appear to be particularly vulnerable to fraud. The requested FY 1991 level represents an approximation of the continuing level for this audit program, although it will need to be supplemented in the future with a research capability similar to those possessed by other Offices of Inspector General to conduct indepth, predictive studies of the nature and extent of fraud in OPM programs.

3. Audits of other OPM programs. This area represents the internal audit program which was carried out by the predecessor organizations to the current statutory Office of Inspector General. During FY 1990, this function has experienced substantial increases in work associated with the review of forward pricing proposals for OPM initiatives in new or current programs (e.g., the Federal Employees Retirement System, and training assistance) which are being administered through contracts, rather than performed by OPM employees. The FY 1991 audit agenda anticipates an ongoing expansion in this area as well as continuing mandatory support in the form of reviews required by various laws affecting OPM and its programs.

5. Q. Your justification states that you cannot investigate every fraudulent activity, instead that you plan to focus on the most egregious. What type of resources would you need to properly investigate every fraud case brought to your attention? Is this a realistic approach?
- A. Again, based upon the experience of Offices of Inspector General with established investigations programs in agencies whose programs are generally similar to OPM's retirement and insurance activities, we would expect to be able to generate a caseload in excess of 1000 per year, if we were to open cases on most instances of improper payment of annuities or health and life insurance benefits where fraud is apparent. However, as is the case with virtually every criminal investigations organization nationwide, it would simply not be practical or cost-effective to fully investigate every situation which involves fraud. Rather, we plan to concentrate on those cases or types of cases which offer the best prospects of bringing tangible results, in terms of recoveries of funds which were improperly paid and

convictions of persons responsible for defrauding the agency.

To this end, we intend to develop criteria which incorporate the amount of funds at issue and the probability of obtaining conviction of a felony offense to guide our selection of cases for investigation. We would refer matters which fell below our threshold for administrative action by the agency, and would monitor the effectiveness of their follow-up actions through our audit program.

Even with these screening criteria in place, we project that the amount of cost-effective investigative work which will be identified will fully consume the resources we are requesting for FY 1991.

QUESTIONS SUBMITTED BY SENATOR KERREY

FEDERAL PAY

1. Q. You have requested pay differentials for three geographical areas--New York, San Francisco, and Los Angeles. What criteria did you use in selecting these areas?
 - A. We reviewed a broad range of salary survey data and staffing information for many metropolitan areas. We found a number of metropolitan areas with high labor costs and staffing problems. However, New York, San Francisco, and Los Angeles stood out as the areas in most need of some immediate pay relief to help address serious recruitment and retention problems.
2. Q. In addition to the request for geographical differentials, you have requests for increases in starting salaries nationwide at the GS-5 and GS-7 levels and for critical skills. That means three changes. Does this suggest that there is a problem with the entire system or do you see these as minor problems which just need a little fix?
 - A. We believe there are major system-wide problems with the monolithic General Schedule and that comprehensive pay system reforms are required. The market-sensitive pay reform which will be submitted by the Administration would accomplish this.

The cited proposals in the President's 1991 budget address some of the most critical pay problems needing immediate relief measures. Our intent is that these immediate relief provisions under the General Schedule will eventually be superseded by permanent provisions for basic pay, differentials, and allowances tailored to various labor markets under the new National Pay System and Locality Pay System.

3. Q. If there were true "comparability" in the Federal Pay System, would you still be requesting the changes which you are requesting?

A. Providing Federal pay increases that would have achieved so-called comparability might have lessened the problems of the Federal pay system, but this would have been achieved at considerable and unnecessary cost since the increases also would have gone to occupations and localities where they were not needed. We believe the proposed pay reform is necessary to modernize the Federal pay system, enable the Government to compete more successfully in the marketplace, and spend limited money wisely.

FEDERAL EMPLOYEES HEALTH BENEFITS

4. Q. You reference 321 health benefits programs. Why the proliferation and is it a good thing?

A. The large number of health plans participating in the FEHB Program is reflective of the growth of Health Maintenance Organizations within the insurance industry as a whole. HMO plans, which represents 300 of the 321 plans currently offered by the FEHBP, provide health coverage to 24 percent of the total enrollment in the program. While the number of HMO's appears to be high, please keep in mind that there is usually a choice of only 2 to 3 such organizations within a given geographic area. Under current law, virtually any HMO may participate in the FEHBP upon meeting OPM's regulatory standards. While there are certainly positive cost-containment aspects of HMO's that are of overall benefit to the program, their proliferation, coupled with their popularity among the younger and healthier segment of the workforce, have contributed in part to the risk segmentation that exists today.

5. Q. In your testimony you indicated that in 1975 the "Big Six" represented 90 percent of all enrollments in Federal employees health plans. Now there are the "Big Five." What percentage of enrollments is now in the top five?

A. The enrollment in the health plan options used in the "Big Five" calculation represents approximately 30 percent of all enrollments in Federal employees health plans. This estimate is based on September 1989 enrollment information and assumes that all Aetna enrollees transferred to another "Big Five" plan during the most recent enrollment Open Season.

6. Q. Why did AETNA leave the program?

A. Aetna decided to leave the FEHB Program for a number of reasons. Aetna believes that the multitude of plans offered to enrollees in the Federal Employees Health Benefits Program has created severe strains within the program. In particular, Aetna believes that adverse selection (risk segmentation) had the

greatest negative impact on the older fee-for-service plans such as their own, which led to disparate increases in costs to their plan. This cost imbalance along with claims unpredictability caused Aetna to determine that remaining in the FEHBP as the indemnity carrier was no longer financially prudent.

7. Q. You indicate that you will be taking action to ensure proper coordination with medicare benefits, to ensure that payments do not exceed maximum allowable charges, and to mandate cost containment. Could you elaborate on these?

A. Prior to the start of the 1991 contract year, we intend to verify our annuitants' Medicare status with the Department of Health and Human Services through the use of computer matching agreements. This information will be provided to FEHBP carriers along with the requirement that they obtain data identifying "participating doctors" for Medicare eligible annuitants. We will also require the carriers to establish effective systems for coordination of benefits with Medicare to ensure that the total billed charge they are considering does not exceed the maximum allowable actual charge established by Medicare.

We have recently published our annual call letter to carriers soliciting proposed benefit and rate changes for the 1991 FEHBP contract year. This guidance requires that all plans include, at a minimum, provisions for (1) verifying the medical necessity of treatment of surgery; (2) determining whether services need to be performed in an inpatient setting rather than on an outpatient basis; and (3) determining the appropriate length of stay for inpatient services.

QUESTIONS SUBMITTED BY SENATOR BYRD

FOURTH EXECUTIVE SEMINAR CENTER

1. Q. During last year's hearing, Chairman DeConcini raised a number of questions on my behalf, in connection with the siting requirements of the proposed fourth Executive Seminar Center. Of particular interest to me was the proposed requirement that the Center be located within a 30-minute commute from a major airport in a hub city within a 425-mile radius of the Capitol Building in Washington, D.C. Testimony indicated that this requirement was needed to accommodate the needs of speakers, the majority of whom are based in Washington, D.C., to be able to fly to the Center and return to Washington, D.C. in the same day. I was concerned that this requirement would adversely affect several proposals to construct the Center in the Eastern Panhandle of West Virginia, which does not meet the letter of the 30-minute commute time to a hub airport, but which does meet the spirit of the need to accommodate Washington, D.C. lecturers, inasmuch as the Eastern Panhandle is only approximately ninety

minutes from Washington, D.C. via ground transportation and would certainly meet the stated requirement to accommodate Washington, D.C. lecturers to be able to reach the Center and return to Washington, D.C. in the same day.

Subsequently, you wrote to me, on September 5, 1989, indicating that you had decided not to proceed with the pending solicitation for a fourth Executive Seminar Center at that time and that you would be establishing a task force to analyze the present system for providing career development throughout the Federal service. The examination by the task force, you stated, should take no longer than six to eight months. What is the current status of the project to establish a fourth Executive Seminar Center and what are the results of the examination by the task force? If it has been determined to proceed with the Center, please provide for the record a description of requirements and a timetable for submissions for Requests For Proposals. Please continue to be aware of my interest in having West Virginia considered as a possible site. If a Request For Proposal should be issued, requiring a 30-minute commute to a hub airport, I should think that, in light of the testimony of last year, an exception should be allowed for proposals for a Center in the Eastern Panhandle which would constructively meet the one-day turn around requirement for Washington, D.C. speakers. I trust you will take these views into account and keep me fully informed on this matter.

- A. The task force on Executive and Management Development met in four sessions during January and February 1990.

The Task Force membership has provided OPM with a number of suggestions concerning OPM's role as the Governmentwide leader in Executive and Management Development.

The Task Force suggestions will be considered as OPM formulates a long-range strategy for establishing a Governmentwide executive and management training and development program to prepare Federal managers to operate the Government effectively through the challenges of this decade.

As our first step, we have begun working on drafting a policy statement that will be provided to the Inter-agency Advisory Group of Personnel Directors and others for review and comment. Based on this process, we will be able to determine the need and focus of our Executive Seminar Centers.

If we decide to proceed with the establishment of a fourth Executive Seminar Center within a 425 mile radius of Washington, D.C., we will take your recommendations into consideration concerning an exception to the requirement of a 30-minute commute to a hub airport.

We will keep you informed as we progress in the formulation of our Executive and Management long-term strategy.

QUESTIONS SUBMITTED BY SENATOR DOMENICI

FY 1991 "SALARIES AND EXPENSES" APPROPRIATION REQUEST

1A. Q. The fiscal year 1991 budget proposes an increase of \$1 million and 4 full-time equivalent positions "to improve service to the public at the point of contact." What is the justification for this proposal to spend additional funds to improve training for Federal employees on how to deal with the public? What problems are we now experiencing in this area?

A. The National Commission on the Public Service (Volcker Commission), an interagency advisory committee on training and development, and survey feedback from OPM regions all provide evidence that the public wants better service and that attention to improving this service requires sustained commitment and effort at all levels of government.

Improving service to the public means providing the necessary training to ensure that employees who are in front-line service positions--those that involve the first point of contact with the public--have the skills that enable them to do their jobs efficiently and effectively. It also means training to sensitize executives and managers to their responsibilities in ensuring that "service" to the public is a central goal of government and that those who perform this service have the opportunity to develop fully the skills to perform it well.

According to the Volcker Commission, "Existing agency training and executive development programs meet some of these needs, but more can be done. Personnel development and improvement efforts should be keyed to the organization's mission, as clearly stated by its senior leaders."

The Volcker Commission also suggests that central management and personnel agencies act to ensure the development and delivery by all Federal agencies of training and incentive programs that promote excellence in performance and delivery of services to the public, and to promote quality and courtesy by government personnel in all "front-line" services with emphasis on telephone courtesy.

The problems may vary from agency to agency. Some problems involve the public's perceptions of the Government and the people who work for the Government. Many times these perceptions are negative, and the "service" provider must use a variety of

skills (such as problem solving and communications) to meet the agency's service commitment to its public.

Service providers must know how to help people who may have been transferred from organization to organization, who may not know what information they need in order to receive good service, who may be intimidated by the idea of dealing with government, who may be inarticulate in describing the service they need, or who may have the perception that they must be aggressive in order to deal with what they feel are indifferent, inefficient, and faceless bureaucrats.

1B. Q. Of the \$1 million request, what amount of funding is associated with the 4 additional positions requested? For what purposes will the balance of the \$1 million requested be used? Please be specific.

A. We intend to allocate the funding and positions as follows: -

I. Employee Education and Development (\$700,000-2.5 FTE)

A. Training Needs Instruments

1. Create a Model Program. Develop a model education and training program based upon the user expectations and agency needs surveys.

(a) User Expectations Survey. To determine user expectations on what customer service elements are important.

(b) Provider (Agency) Needs Survey. To determine agency training needs.

2. Interagency Advisory Committee. Used to identify training needs for employees in various types of front-line positions, i.e., those that affect large segments of the public-- Social Security Administration, Internal Revenue Service, Office of Personnel Management.

B. Awareness

1. New Employee Orientation. Accomplished through the use of a video. Designed to help all new Federal employees view their role as one of providing service to the public, no matter which agency of the Government employs them. Provide to agencies for use in existing orientation programs.

2. Support and Technical. For use by agencies to develop employees whose jobs put them at primary contact points in dealing with the public.
3. Professional Staff. For employees not considered front line, but who need to understand and support those who are.
4. Managers. Designed to sensitize managers to front-line service issues and help them recognize that they set the tone for others who actually provide the service.

C. Product Development

1. Classroom courses. Specific training materials that could be handed off to agencies for use in existing training programs or as stand-alone courses.
2. Technology Based. Training designed for alternative delivery methods, such as artificial intelligence and computer-based systems.

II. Information and Resource Sharing (\$200,000-1 FTE)

- A. Research Conferences. Applied research. Series of papers presented to explain elements of research-based activities in the provision of services that would also be relevant in public service. Participants would come from public, private, and academic circles.
- B. National Conference. Exchange ideas in a conference setting as a means of identifying resources and best practices.
- C. FEB Conferences. Local conferences sponsored by the Federal Executive Boards as the regional counterparts to the national conference.
- D. Showcases/Briefings. Designed as a means to share information about exemplary training practices of agencies.
- E. Clearinghouse for Product Dissemination. A means of collecting information on front-line service initiatives or working with existing organizations that already provide such services, such as the National Technical Information Service, or National Audio-visual Center.

III. Publicity (\$70,000-.3 FTE)

- A. Presidential Proclamation/FPM Letter "Decade of Renewed Commitment to Service." Used to ensure that agencies give the proper focus and commitment to front-line service issues.
- B. News Conferences. Used in conjunction with the Presidential Proclamation, issuance of FPM Letter, or other events which could focus attention on the new commitment to front-line service.
- C. Posters/Pamphlets. Materials to publicize the Government's effort to improve front-line service. May be tailored to fit agency needs.
- D. Articles/News Releases of "Service Excellence" to Promote Public Awareness. Designed to inform the public of the Government's new (and continuing) commitment to meet their needs and expectations. Focus may be on specific agencies such as Social Security Administration's new toll-free number or OPM's automated Federal Job Information Centers or College Hotline.

IV. Outreach (\$30,000-.2 FTE)

Develop programs with high schools/colleges which show Government jobs as a positive service and which encourage schools to emphasize, where appropriate, the development of communications and other "soft" skills which are useful throughout the students' school and work life.

2A. Q. The fiscal year 1990 appropriations Act requires that no less than \$250,000 be made available to establish a program to facilitate the use of job sharing arrangements in agencies. Please give us a report on the job sharing program established in accordance with the fiscal year 1990 appropriations Act requirement. What level of funding is being allocated to this program for fiscal year 1990?

A. We are allocating \$250,000 to this program for fiscal year 1990.

Our first step in developing the project was to ask Federal agencies what specific OPM actions in the area of job sharing would be most helpful to them. We next developed the outline of an automated system through which the matching process could be accomplished and requested comments from our regional offices as well as suggestions on where pilot projects (in addition to the one in Washington, D.C.) would be the most fruitful. With those comments in hand, we are now writing the necessary computer programs for the automated system. We will meet with

agencies in mid-April to go over the details of the program which we expect to launch by October 1, 1990.

In advance of the publicity campaign we will launch for the project, we alerted Federal personnel offices to the project in our publication, Federal Staffing Digest. In presentations to Federal Women's Program managers, employee and labor relations specialists, and union representatives, we covered the program in the context of work-family issues.

We are also writing promotional materials on the concept of job sharing. We have in mind a set of guidelines (primarily for agencies, but useful for job sharers as well) and a pamphlet for employees. The following outline describes the project in more detail.

OPM PILOT PART-TIME AND JOB SHARING MATCH PROGRAM FOR FEDERAL EMPLOYEES

I. Overview

- A. Public Law 101-136 requires OPM to conduct a program to facilitate job sharing, including an automated system for matching jobs and candidates.
- B. The pilot project (which will cover job-sharing as well as other part-time positions) will be conducted over a 12-month period in Washington, D.C., and possibly other locations. The program will be open to current Federal employees and others with status.
- C. OPM will provide agencies with information about the program, including a handbook on job sharing, and a short pamphlet on job sharing and part-time employment. The pamphlet will have a telephone number employees can call to request a form to register their interest in part-time work and job sharing. Agencies will be responsible for telling their own managers and employees about the program.

II. Summary of Pilot Program Operations

- A. Interested employees can obtain 2-page registration forms from OPM. Completed forms will be sent directly to OPM, where they will be scanned and entered onto the automated system.
- B. Those who express an interest in job sharing will receive the names of potential job sharing partners who have also registered for the same types of jobs and geographic locations. (Individuals can

indicate that they do not want to have their names sent out to others.)

1. Like a carpool matching system, registrants can contact each other and decide if they wish to form a job-sharing team.
 2. As a team, they can either apply for vacancies they identify on their own initiative or they can wait to be called by an agency which has obtained their names from the automated system.
- C. Agencies seeking to fill job-shared or other part-time positions will have direct access to OPM's pool of registrants. The only equipment needed will be a touch-tone telephone and a Group 3 FAX machine. Following recorded prompts and using the buttons on the telephone, agencies will be able to request the names of candidates for specific vacancies. OPM will fax the names of registrants to the agency.
- D. It will be each agency's responsibility to contact available candidates and determine their eligibility.
- E. If no candidates are found and OPM (or an agency with delegated examining authority) finds it necessary to announce the position, the Federal Job Opportunities List can note that the position is suitable for job sharing. Note: In addition to using the OPM automated system for job sharing to identify status candidates, agencies can also use competitive registers to locate non-status candidates for job-shared and other part-time positions.

III. Program Evaluation

- A. Agencies will be asked to maintain data on their use of the program.
 - B. At the end of the project, OPM offices and agencies will be asked for input concerning the usefulness of the program suggestions for change, etc. If the program is successful, options would include geographic expansion as well as coverage of outside applicants.
- 2B. Q. The fiscal year 1991 "Salaries and Expenses" appropriation request contains a decrease of \$250,000 for job sharing initiatives. The justification indicates that in fiscal year 1990 this included the design of a clearinghouse to promote the job sharing concept and match jobs with applicants. Does this decrease in funding reflect the discontinuation of job sharing activities in fiscal year 1991? If not,

how much funding is included in the fiscal year 1991 request for the job sharing program and what job sharing activities are being funded?

- A. Our expectation is to continue the job-sharing project in FY 1991 within resources allocated to OPM. The initial start-up costs (designing the automated system, writing promotional materials, etc.) will not be continued in FY 1991. During FY 1991, staff time will be needed to oversee the automated system and solve any problems which arise. In addition, during the operation of the 1-year project, OPM staff will continue to promote the program. Toward the end of FY 1991, staff time will be devoted to evaluating results in order to determine whether to continue, expand, or terminate the project.
3. Q. The fiscal year 1991 budget proposes an increase of \$389,000 and 17 full-time equivalent positions to produce an additional 36,500 national agency check (NAC) and national agency check with inquiries (NACI) investigations. The budget justification indicates that this will allow OPM to reduce the inventory of backlogged cases to a normal workload of 45,000 cases at the end of the year. What has contributed to the inventory of backlogged cases? When did OPM last have a normal workload of 45,000 cases at the end of the year?
- A. The level of NAC/NACI's on hand went up dramatically during FY 1989 due to funding limitations and the need to devote staff to higher priority sensitive background investigations. Processing NAC/NACI's is basically a two-step procedure. After a request for a NAC/NACI is received from a customer agency, the case is "scheduled." This "scheduling" process involves checking OPM and FBI records for any previous investigations, as well as distributing inquiry forms to employers, educational institutions, law enforcement agencies and references. Once the forms are sent out, OPM must wait until the inquiry forms are returned to be able to review the material and send the results to the employing agency.

At the start of FY 1990, almost 14,000 NAC/NACI cases were on hand which required scheduling, while another 103,000 cases were awaiting closure. During FY 1990, OPM will receive approximately 227,000 cases, schedule 230,000 cases, and be able to close 241,000 cases. At the start of FY 1991, OPM will have over 81,500 NAC/NACI cases awaiting closure, and expects to receive 235,000 cases during the year which need to be scheduled and closed.

This additional funding will allow OPM to reduce the level of cases on hand to about 45,000 which is a normal working level for these cases.

OPM last had a normal level of 45,000 cases on hand at the end of FY 1983.

4. Q. The fiscal year 1991 "Salaries and Expenses" request proposes an increase of \$1.3 million and 10 full-time equivalent positions to develop the technical infrastructure needed to support reforms of the pay system and to communicate with the workforce and its managers about these changes. Will the additional funds and positions requested be required if for any reason proposed reforms of the Federal pay system are not enacted into law this year?

A. As we noted previously, the pay problems facing the Government are serious and widespread; delayed reform will greatly erode the Government's ability to recruit and retain a qualified workforce. To address critical needs, agencies will continue to place enormous pressure on existing systems and authorities. Our special rates program, designed to address small, isolated pay problems in limited geographic areas, has been increasingly burdened as systemic inadequacies have led agencies to request special rates for occupations difficult to staff. The number of positions covered by special rates increased over 280 percent between 1985 and 1989. We anticipate an accelerated rate of growth for special rate cases without pay reform. Not only would there be an increase in the volume of cases, but there would also be a substantial increase in the complexity of the issues surrounding such cases. We anticipate that attention will be required for more occupations, covering broader areas. This will call for new study approaches which examine the occupation itself and the interrelationships between it and other occupations, as well as carefully assessing the impact the decision could have across a number of areas. For example, it is already clear that certain occupations will need unique attention. The Law Enforcement Advisory Commission has issued a report calling for surveys relating to the adequacy of salaries for law enforcement personnel. Development of new pay and classification systems for these and other occupations, such as those in health fields, will also have to be undertaken regardless of the outcome of pay reform proposals, since the problems involved in addressing their pay inadequacies simply cannot be dealt with under our current system.

The additional funding requested will provide both the staff and technology necessary to adequately address the increase in both volume and complexity of cases. Our ability to meet this challenge is particularly important if we are to enable the Government to maintain its recruiting and retention competitiveness.

5. Q. The fiscal year 1990 "Salaries and Expenses" request includes funding to cover only 50 percent of the proposed 1991 General Schedule and executive pay raises and 50 percent of the expected inflation in non-salary costs. What is the total amount of funding to meet these costs which OPM must absorb in fiscal year 1991? What funding reductions will be required as a result?

- A. In our proposed budget, we will be absorbing \$956,000 of the proposed 3.5 percent January 1991 pay raise, \$225,000 of the proposed executive pay raise, and \$403,000 of the expected inflation in non-salary costs, for a total absorption of \$1,584,000 in our Salaries and Expenses appropriation. Likewise, our retirement and insurance programs funded through the Limitation on Transfers from Trust funds will be absorbing \$645,000 for General Schedule pay, \$92,000 for executive pay, and \$299,000 for inflation--a total absorption of \$1,036,000.

OPM managers will absorb their proportionate shares of the pay raise. Possible actions on their part may include leaving positions vacant and reducing other costs such as travel, training, supplies, and equipment.

- 6A. Q. The fiscal year 1991 request proposes an increase of \$250,000 and 4 full-time equivalent positions to provide staff support, travel, and per diem for the President's Advisory Commission on Public Service. The budget justification indicates that the President's Advisory Commission on Public Service will be established by Executive order. Has that Executive order been signed? If so, when was it signed and what does it say about the goals and establishment of the Commission? For example, who will serve on the Commission?

- A. No, the Executive order has not yet been issued. We have submitted a working draft to OMB for review, and are still negotiating. We hope to start the formal review process on such an Executive order within the next month.

We would expect the Advisory Commission to be a long-term activity, focusing initially on recommendations coming out of the Volcker Commission studies and report, and later identifying other public service issues and concerns requiring national attention.

We propose that the Commission be composed of distinguished Americans who can help identify and address issues of concern to the Federal public service by raising these issues to the attention of the President, the Congress, the Office of Personnel Management, and the general public.

- 6B. Q. Of the increase requested to support the President's Advisory Commission on Public Service, how much is requested for staff support, how much for travel, and how much for per diem?
- A. We would anticipate allocating \$190,000 for salaries and benefits, \$25,000 for travel and per diem, and the remaining \$35,000 for other items.
7. Q. The fiscal year 1991 request includes a decrease of \$200,000 to eliminate the balance of funding for the Federal Executive Boards. This represents a shift from the Administration's position of last year--

although appropriations were not provided--that an increase of \$3.473 million and 55 full-time equivalent positions be provided to directly fund all Federal Executive Boards. Why?

- A. The fiscal year 1990 request for \$3.473 million and 55 full-time equivalent positions was to provide a permanent funding mechanism for the Boards. Because fully centralized funding was not approved, various departments and agencies are continuing to fund the individual boards voluntarily, as they have for the last 19 years.

Since Congress did not view centralized FEB funding as a priority last year, we have decided instead to work with the departments and agencies to solidify existing funding arrangements.

8. Q. The fiscal year 1991 request proposes a net decrease of \$716,000 and 8 FTE positions as a result of a change in the Salaries and Expenses program's share of administrative, ADP, and executive services. How is the Salaries and Expenses program share of these funding requirements calculated?

- A. The Salaries and Expenses share of administrative and executive services is determined by the total dollar amount budgeted for Salaries and Expenses direct programs relative to the total amount budgeted for other direct programs--that is, those funded from Trust Funds, the Revolving Fund, and the Office of the Inspector General. In FY 1991, OPM's Salaries and Expenses programs represent 32.8 percent of all direct programs, therefore, the S&E appropriation funds 32.8 percent of the costs of OPM's administrative and executive services.

The cost of ADP services, however, is distributed by fund based on estimated usage. In FY 1991, OPM's Salaries and Expenses share of central ADP services is 52.1 percent.

LIMITATION ON ADMINISTRATIVE EXPENSES

9. Q. An additional \$563,000 is proposed for fiscal year 1991 to continue the development of the automated processing system for the Federal Employees' Retirement System.

What additional amount of funding will be required to complete this system? What is the time frame for accomplishing this?

- A. We are requesting an additional \$800,000 in no-year funding (an increase of \$563,000 in spending from FY 1990 to FY 1991) to move forward with the design and implementation of the Federal Employees' Retirement System automated record keeping system. Project tasks planned for FY 1991 include preparation of the system's general design, hardware procurement, and starting the transfer of agency records to OPM's new, centralized database.

We estimate that the total cost of the FERS automated processing system project will be \$64 million, of which \$11.8 million has already been appropriated. The system is scheduled to become fully operational in FY 1995.

10. Q. An additional \$950,000 and 30 FTE is proposed for a comprehensive, on-going training program aimed at improving the skills and productivity of OPM's retirement operations staff.

Specifically, what will these additional funds be used for and what improvements do you hope to achieve as a result of this funding increase?

- A. A training program has been developed that would provide approximately 650 retirement operation employees with approximately ten classroom days per year in training. This training will include:

- Basic training in communication and telephone courtesy for all employees;
- Comprehensive advanced training on selected areas of retirement law and regulations for retirement operations staff responsible for handling inquiries;
- Formalized post-adjudicative training for claims examiners; and
- Courses in basic and advanced technical writing for annuitant service representatives and examiners.

We believe this type of training will enhance our efforts to sustain current timeliness standards and improve quality control, and be more responsive to clients. At the same time it will allow us to build a more experienced and productive workforce.

PUBLIC SERVICE SCHOLARSHIP PROGRAM

11. Q. The Administration is proposing legislation to establish a new Public Service Scholarship program. Scholarships would be awarded to exceptional students at the undergraduate or graduate level. In exchange, each recipient would be required to work for the Federal Government for one year for each year of education funded. The fiscal year 1991 budget proposes \$900,000 and 4 FTE to support the establishment of this program. When will the Administration's legislative proposal for the establishment of a Public Service Scholarship Program be submitted to the Congress?

- A. We are developing a legislative proposal which we plan to submit to the Congress soon, following the coordination of views within the executive branch.

12. Q. Can you tell us more about the specifics of this proposal?

- A. The \$900,000 proposed for the fiscal year 1991 budget would support a pilot program through which selected students would receive scholarship grants of up to \$10,000 or \$15,000 per year for undergraduate or graduate studies. The program would be initiated with 50 selectees the first year. Special consideration would be given to outstanding students who intend to pursue a public service career, and could be focused on students pursuing careers in "shortage category" occupations.

13. Q. The fiscal year 1991 budget requests \$900,000 to support this new program. How can this \$900,000, which includes OPM administrative expenses, go very far in helping with the Government's recruitment problems? How many scholarships would this \$900,000 support?

- A. OPM will initiate the program with 50 selectees the first year. Selected students would receive a grant of up to \$10,000 per year for undergraduate education and up to \$15,000 for graduate programs.

With the annual selection of an additional 50 students and replacements for losses, the program would grow to a total of 200 by the fourth year with a projected cost of \$3.6 million.

14. Q. Isn't Federal pay reform one answer to our current problem of attracting young college graduates to public service? Why is a scholarship program being proposed to pay prospective employees' college expenses? How have you established a need for this? Unless the Federal Government is competitive with the private sector, wouldn't you expect these young people to put in their time--serving one year for each year of education funded--and then leave Federal service for a higher paying job in the private sector? If this proves to be the case, what will we accomplish by expending limited Federal resources for this purpose?

- A. Development of the Public Service Scholarship Program is based, in large part, on the recommendation of the National Commission on the Public Service that the President and Congress establish a Presidential Public Service Scholarship Program targeted to 1,000 college or college-bound students each year. The purpose of the program is to improve the Government's ability to recruit America's top college graduates.

While pay reform is certainly a key factor in attracting and retaining outstanding graduates, we must also look to other means of identifying and supporting outstanding students who demonstrate a commitment to a public service career. Scholarship support of students with such a commitment, along with an improved pay system, should do much to assure that a significant proportion of graduates remain committed to a career in the Federal service.

ADMINISTRATION'S FEDERAL PAY REFORM INITIATIVE: PHASE ONE

15. Q. In addition to the 3.5 percent across-the-board pay adjustment, the President's fiscal year 1991 Budget calls for early implementation of the first phase of pay reform. The following four initiatives are proposed:

- (1) geographic differentials of up to 8 percent for General Schedule workers in three high labor cost metropolitan areas: New York, Los Angeles, and San Francisco;
- (2) a 5 percent increase in starting salaries nationwide for entry-level occupations normally filled by college graduates at the GS-5 and GS-7 levels;
- (3) authority for all grade levels to hire individuals with unique or special qualifications at rates above the minimum for the grade (authority currently available at GS-11 and above); and
- (4) payment of bonuses to recruit, retain, or relocate workers with critical skills.

You indicate in your testimony that the President's Budget proposes four initiatives to begin the implementation of pay reform. These include geographic pay differentials for Federal workers in three cities; a 5 percent increase in entry level positions to recruit college graduates; higher pay rates to hire individuals with unique or special qualifications; and bonuses for workers with critical skills. What is the Government-wide cost of each of these four initiatives?

A. The \$328 million authorized expenditure figure in the President's Budget for FY 1991 includes \$240 million for the geographic differentials, \$46 million for the 5 percent increase for entry-level college graduates, and \$42 million for the recruitment/retention bonuses. Because the initiatives would begin in January 1991, the figures represent anticipated costs over three quarters of the fiscal year.

16. Q. Are these costs funded in the President's fiscal year 1991 Budget? If not, how can agencies absorb these costs? The President's fiscal year 1991 Budget requires all Federal agencies to absorb 50 percent of the proposed 3.5 percent 1991 pay raise and we are finding that the cumulative effect of unfunded personnel cost increases is already having a severe impact on agencies' ability to meet their personnel and programmatic requirements.

A. No additional funds are included in the President's Budget for these initiatives. There is about \$1 billion in new money in the Budget for the 3.5 percent pay raise and related benefits. This is about 3¹/₂ times as much new money as was in the

President's fiscal year 1990 Budget which provided only about \$280 million for pay raises and related benefits. In addition to savings expected from reduced turnover and staff-shortage-related overtime, the needed funds will have to be realized by agencies through more efficient operations while continuing to provide the same level of services to taxpayers.

17. Q. The President's Budget calls for geographic or locality pay differentials of up to 8 percent for Federal employees in three cities: New York, Los Angeles, and San Francisco. How did the Administration decide on an increase of up to 8 percent for these three cities? Although these three cities are high cost areas, aren't there other cities (e.g., Boston or Detroit) where Federal agencies are having equally severe recruitment and retention problems due to labor and living costs being far above national norms? Why aren't the Federal employees in these areas equally deserving of a geographic pay differential?

- A. First, it should be noted that the locality pay concept deals with the relative cost of labor, not the relative cost of living. The 8 percent maximum figure does not pretend to match market rates. Rather, it represents a sizeable Administration commitment that recognizes the limited resources available to address critical pay problems. We recognize that there are a number of metropolitan areas with high labor costs and staffing problems. However, a review of a broad range of salary survey data and staffing difficulties identified New York, San Francisco, and Los Angeles as the areas in most need of immediate help.

The Administration's reform proposal will allow for expanded geographic differentials in the future.

18. Q. Which employee groups would be covered by this proposal? If the proposal calls for some occupational groups to be covered and not others, why? Aren't all Federal employees in the area suffering equally?

- A. All employees currently covered by the General Schedule working in the Los Angeles, San Francisco, and New York CMSA's could receive the 8 percent differential.

Employees currently covered by special rates could receive some or all of the 8 percent differential depending upon the amount of the special rate and whether it is based on a local or nationwide recruitment or retention problem.

SES members will not receive the 8 percent differential; they will be receiving a substantial basic pay increase (ranging from 18 to 25 percent) in January 1991.

19. Q. Exactly which geographic areas would be covered within each of the three cities proposed?

A. It is our intent to include all counties in the applicable Consolidated Metropolitan Statistical Areas (CMSA's), as defined by the Office of Management and Budget. The official names of the respective CMSA's are the Los Angeles-Anaheim-Riverside, California CMSA; the New York-Northern New Jersey-Long Island, New York-New Jersey-Connecticut CMSA; and the San Francisco-Oakland-San Jose, California CMSA. Our memorandum to Directors of Personnel (copy attached) lists the counties within each of these three CMSA's.

20. Q. The President's Budget proposes to provide 5 percent increases nationwide at the GS-5 and GS-7 entry-level occupations for college graduates. How was the 5 percent amount derived?

A. The 5 percent figure does not pretend to match market rates. Rather, it represents a sizeable Administration commitment that recognizes the limited resources available to address critical problems filling these entry-level jobs with quality candidates. Our intent is that this immediate relief provision will eventually be superseded by permanent provisions of the new National Pay System.

21. Q. Why would increase be provided nationwide? Why should it be applied to areas where Federal salaries are below comparable rates in the private sector?

A. The 5 percent increase is provided nationwide because college entry-level jobs generally are recruited for nationally. This immediate relief provision is in response to a system-wide problem under the General Schedule. The new National Pay System will use a combination of basic pay, differentials, and allowances more tailored to labor markets.

22. Q. If this increase is provided to new hires, what impact would it have on the retention of recently hired employees who were not eligible for the increase?

A. The increase could be provided to all GS-5 and GS-7 employees in such college graduate entry-level positions, including those already on board.

23. Q. Authority to pay bonuses to recruit, retain, or relocate workers with critical skills is also proposed. What are the Federal Government's critical skill occupations and positions? What are the sizes of the bonuses proposed?

A. Recruitment and relocation bonuses may be paid if it appears likely that without the bonus an agency would encounter difficulty in filling the position. Retention allowances may be paid to avoid the loss of essential employees who have unusually high or unique qualifications or to meet special agency needs.

Through its regulations, OPM expects to delegate this authority to the agencies.

The pay reform proposal allows recruitment and relocation bonuses and retention allowances of up to 25 percent of basic pay. Further guidance on the level of bonus appropriate for individual situations will be provided in the regulations.

LEAVE TRANSFER/LEAVE BANK

24. Q. Would you please give me a status report on the leave transfer/leave bank program?

A. OPM implemented the 5-year experimental Government-wide voluntary leave transfer program in April 1989. Throughout the past 11 months, we have provided technical advice and assistance to Federal agencies and employees about this program. In October 1989, we issued Federal Personnel Manual guidance to all Federal agencies on this program, including standardized forms for use by leave donors and recipients.

OPM implemented the experimental voluntary leave bank program in July 1989 after approving participation by six Executive agencies of varying sizes (Internal Revenue Service, Environmental Protection Agency, Defense Nuclear Agency, Farm Credit Administration, National Gallery of Art, Occupational Safety and Health Review Commission). We have also provided technical advice and assistance to these agencies about this program.

Since the current programs have been in operation for less than a year, we believe it would be premature to reach any conclusions about their overall success. However, we will continue to evaluate these programs in preparation for our first report to Congress, which is due on October 31, 1990.

25. Q. How many Federal agencies and Federal employees are participating in this program? How many Federal employees have been benefited from this program?

A. To our knowledge, all Federal agencies with employees covered by the leave system under chapter 63 of title 5, United States Code, have established a voluntary leave transfer program. In addition, parts of six Executive agencies are participating instead in the voluntary leave bank program.

We do not have current statistics on the number of Federal employees who are participating in or who have benefited from these programs. However, our implementing regulations require each agency to maintain such records, and we are planning to request reports from each Federal agency (based on their experience during the first year of operation) for our first report to Congress, which is due on October 31, 1990.

As of September 30, 1988 (the most recent date for which information is available), a total of 2,404 applications for leave transfer had been approved by 55 Federal agencies under the FY 1988 voluntary leave transfer program that preceded the current 5-year experimental leave transfer/leave bank programs.

26. Q. How many Federal employees have benefited from this program in New Mexico? Please provide specific case examples.

A. We do not have current statistics on the total number of Federal employees in New Mexico who have benefited from these programs. However, we conducted an informal survey of eight large Federal agencies or installations in New Mexico (Social Security Administration, White Sands Missile Range, Federal Aviation Administration, Veterans Affairs Regional Office, Department of Energy, Forest Service, Bureau of Land Management, and Kirtland Air Force Base). These eight agencies or installations have approved a total of 122 leave recipients for participation in the voluntary leave transfer program. To date, a total of 2,447 fellow employees have donated 44,481 hours of annual leave to these leave recipients (about 365 hours per recipient).

One of the leave recipients at Kirtland Air Force Base is a handicapped employee (wheelchair bound) who developed an infection in her hip in 1988. She was approved as a leave recipient under the FY 1988 temporary leave transfer program and subsequently was hospitalized. Her agency reapproved her as a participant in the current leave transfer program in 1989. She had her hip removed and has since returned to work on a part-time basis. She received a total of 936 hours of donated annual leave from fellow employees--enough to cover an absence of almost 6 months.

Another leave recipient is an employee of the Social Security Administration in New Mexico who has been unable to work since March 19, 1990, as a result of a seizure and the discovery of a massive brain tumor. The employee recently was approved as a leave recipient and so far has received 483 hours of donated annual leave from fellow employees, with additional donations still coming in. The employee is expected to return to work on or about May 1, 1990.

SPECIAL PAY RATES

27. Q. Special rates have been sought and won by Federal agencies as a means of escaping the limitations of the General Schedule for certain grades and occupations in areas where these agencies are experiencing severe recruitment and retention problems. Currently, what percent of the Federal work force and total number of Federal employees are on special pay rates?

- A. Currently, there are approximately 176,000 General Schedule employees on special rates. This is 12.7 percent of the General Schedule population.
28. Q. Which Federal Government recruitment and retention problems are being addressed by special rates and which are not?
- A. Under section 5303 of title 5, United States Code, OPM may approve special salary rates when agencies are experiencing recruitment and retention problems caused by higher private sector pay rates. Public Law 101-136 extends through fiscal year 1990 certain additional special rate authorities first granted to OPM two years ago. Besides higher private sector pay, the law allows OPM to consider staffing problems caused by higher pay in the public sector (including Federal pay), remote worksites, undesirable working conditions, and any other circumstances OPM may identify. Most of the existing special rates are based on staffing problems caused by higher private sector pay; a few are based on remoteness; and a growing number are based on higher pay in State and local governments. Occupations covered by special salary rates range from those of a clerical nature (e.g., typists) to professionals (e.g., physicians, engineers), and include technicians, such as radiologic technicians, and others, such as police and firefighters.

While special salary rates have been successful in dealing with a number of problems, the authority is not well-suited to solving all of the various staffing problems facing the Federal Government. Under the special rates authority, regular GS pay rates may be increased by a maximum of 30 percent. For some occupations and grades, particularly certain professional jobs at the entry levels, this is insufficient. Also, special rates are increases in basic pay that apply to all employees in the affected occupation in the designated area. Some staffing problems would be more readily, and more inexpensively, solved by payment of a one-time recruitment or relocation bonus just to those employees newly recruited or relocated.

29. Q. When agencies seek special rates, what consideration is given to their ability to pay for them?
- A. Under OPM regulations, when an agency requests special rates it must certify that it has funds available to pay the additional cost of the higher pay rates.

FEDERAL EMPLOYEE PAY REFORM

30. Q. The Administration does not agree with the pay machinery proposed in either Senator Glenn's or Representative Ackerman's pay reform bills. What pay adjustment machinery is the Administration going to propose?

- A. The Administration bill provides separate but somewhat parallel pay adjustment machinery for the proposed National Pay System and Locality Pay System. Both adjustment processes will begin by having the Bureau of Labor Statistics (BLS) conduct salary surveys. Under both systems, the process begins early enough for the President to include accurate cost figures in his January budget for the following fiscal year. All schedules will be adjusted in January. (During a transition period the current annual pay adjustment process will continue. The new adjustment procedures will go into effect in January 1994 for the Locality Pay System and in January 1995 for the National Pay System.)

By November 1 of each year the President's Pay Agent will recommend to the President a National Schedule adjustment which places Federal salary midpoints generally within a defined comparability range (+/- 10 percent of the survey trend line). In determining the appropriate amount to recommend, the Pay Agent considers the Federal staffing situation, various labor market conditions, and the need to provide Government services economically. The Pay Agent also considers the advice of the National Employees Pay Council and holds public hearings. The President may implement the Pay Agent's recommendation or select a different NS adjustment figure within the comparability range. Under circumstances of national emergency or serious economic conditions affecting the general welfare, the President may select a lesser amount but must report to Congress, explaining the decision and providing an assessment of the impact on the Government's ability to recruit and retain a quality work force.

Adjusting schedules under the Locality Pay System involves more parties and is thus somewhat more complex. The Federal Labor-Management Pay Committee (FLMPC) will recommend to the OPM Director (1) local schedule adjustments within local comparability ranges and (2) a resultant system-wide average LS adjustment figure. The OPM Director will review the FLMPC recommendations, taking into account the same factors used in setting NS rates, and will recommend an average LS adjustment figure to the President's Pay Agent by October 1. The Pay Agent will review the OPM Director's recommendation and recommend an average LS adjustment figure to the President. The President may implement the Pay Agent's recommendation or select a different average LS adjustment figure within the comparability range. The President has the same authority and reporting requirements for selecting any lesser amount under the Locality Pay System as under the National Pay System.

31. Q. What provisions will the administration proposal contain to prevent a recurrence of the erosion of Federal employee pay comparability that began in 1978 and has reached a level of around 29 percent disparity today?

A. The Administration's pay reform proposal contains a number of pay flexibilities that will help prevent pay erosion. These include:

- o immediate relief provisions including 8 percent differentials in the Los Angeles, New York, and San Francisco CMSA's; a 5 percent increase for employees in college entry-level occupations; and recruitment and retention bonuses;
- o local pay schedules for positions for which recruitment is generally conducted from a local labor market (mainly technical and clerical positions);
- o geographic differentials of up to 25 percent in exceptionally high labor cost areas with area-wide staffing problems;
- o Federal pay tied to a comparability range instead of a fixed point within the range of pay rates paid by non-Federal employers;
- o consideration of factors such as turnover, vacancy rates, career progression patterns, quality of workforce trends, and unemployment rates in selecting where within the comparability range the Government should position itself;
- o increasing the pay range within a grade from its current level of 30 percent of the base rate up to 40 percent of the base rate;
- o expanding the authority to hire above the minimum rate to cover all grades;
- o staffing differentials for hard-to-fill occupations; and
- o Presidential consideration and report to Congress assessing the impact of increases below the comparability range on the Government's ability to recruit and retain a quality workforce.

32. Q. The Administration is planning to tie pay adjustments to performance, a practice that is widely used in private industry and is used by the Federal Government for GM employees. There is enormous dissatisfaction among Federal managers with the performance management review system that is used to rate and reward the performance of GM employees. What is the cause of this dissatisfaction and will the problems with this system be addressed before pay for performance is expanded to other Federal employees?

A. One of the problems most mentioned with respect to the current PMRS system is that there was not enough

money available. As a result of this situation, employees complained that they were not rated against their standards, but rather they got ratings lower than they deserved because of the lack of funds in the merit pay budget. While there admittedly have been some problems, we do not agree that pay for performance can't function well. The current PMRS did result in significant differences in merit increases and awards based on performance.

When merit increases and awards are considered together, PMRS employees receive approximately 3.5 percent of payroll in merit increases and awards on top of the General Schedule increase. Other General Schedule employees receive approximately 2.3 percent of payroll plus the General Schedule increase. Under the new system, agencies will have much greater latitude to design their own systems to be more responsive to their own needs, culture, and mission.

We continue to believe pay for performance is preferable to automatic, longevity-based increases, and that the system will work better when agencies have more flexibility to design and implement it.

HEALTH BENEFITS REFORM

33. Q. OPM proposes two alternative approaches to reducing Federal budget outlays for health benefits by \$850 million in fiscal year 1991.

The first would reduce the Government contribution to the program by using a 60 percent weighted average formula rather than the current 60 percent average of the "Big Six." How much will this alternative increase the average Federal employee's annual contribution?

The second alternative would use a 67 percent weighted average and a mix of legislative and administrative initiatives to achieve a similar reduction in the Federal Government's outlay. What is the annual increase to the average Federal employee under this alternative?

- A. Using the 1990 contract rates which are currently in place for the program, the average Federal employee's annual contribution would increase by approximately \$282 if the weighted average proposal were implemented.

Federal employees would not experience any increase in their health benefits premiums under the second alternative. If all of the proposed changes were adopted there might be a modest decrease in their health benefits premiums. Perhaps an explanation as to why the two alternatives yield different employee cost impacts may be beneficial.

Under the 60 percent weighted average proposal, costs would shift from the Government to enrollees as a result of the change in the applied cost-sharing

formula. Under the second alternative, we are recommending actions that would reduce the overall cost of the program (e.g., cost containment initiatives and elimination of premium taxes) while still providing an alternative source of funding (contingency reserves) to finance benefit payments during FY 1991. These actions would result in a lower level of income needed to operate the program and thereby enable OPM to negotiate a lower level of premium rates for the year. Although this second alternative also carries a provision to apply a weighted average formula that would result in a cost shifting to enrollees, the additional cost would be offset by the savings achieved through the administrative and legislative provisions of the proposal.

34. Q. One of the criticisms of the current health benefits program is the risk segmentation/risk selection that has led to a situation where people most in need of coverage are isolated in the high cost plans. The OPM reform proposal would create distinct risk pools for employee and retirees. Won't this further increase the rates retirees will have to pay?

A. Employees and retirees have very different health care costs and needs. An effective accommodation of these differences is to establish two risk pools. A benefit of two risk pools is the stability which they would bring to the Program. For example, were the Postal Service to use its current authority to set up a separate health benefits program, the departure of so large a group of employees would dramatically alter the ratio of employees to retirees in the remaining, single risk pool, thus substantially increasing the premiums for the entire pool. However, if the Postal Service were to withdraw from an employee-only risk pool, the effects would be minimal.

We have not developed any preferred benefits package(s) for employees or annuitants thus far and, therefore, have not prepared any detailed cost estimates. However, we do not expect any particular sub-set of the FEHB population to pay substantially more out-of-pocket for premiums than what they are paying currently. With enhanced cost containment, tighter management, elimination of State premium taxes, and use of the Medicare payment limits, we are hopeful that some groups of retirees may in fact experience a reduction in out-of-pocket premium expenses under our reform proposal.

SUBCOMMITTEE RECESS

Senator DeCONCINI. The subcommittee will recess until 10 a.m., Thursday, April 5.

[Whereupon, at 11:25 a.m., Wednesday, March 28, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 5.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

THURSDAY, APRIL 5, 1990

**U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.**

The subcommittee met at 10 a.m., in room SD-116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini and Domenici.

U.S. POSTAL SERVICE

**STATEMENT OF ANTHONY M. FRANK, POSTMASTER GENERAL OF THE
UNITED STATES**

ACCOMPANIED BY:

MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL

**CHARLES R. CLAUSEN, CHIEF POSTAL INSPECTOR AND POSTAL
SERVICE INSPECTOR GENERAL**

**COMER S. COPPIE, SENIOR ASSISTANT POSTMASTER GENERAL, FI-
NANCE GROUP**

HAROLD J. HUGHES, GENERAL COUNSEL

OPENING REMARKS

Senator DeConcini. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

Today the subcommittee will continue its hearings on the President's fiscal year 1991 budget request by taking testimony from the U.S. Postal Service and the National Archives.

Our first panel this morning will consist of representatives of the Postal Service. We are pleased and honored to have Anthony Frank, Postmaster General of the United States, testifying on behalf of the U.S. Postal Service budget request.

It is good to see you again, Mr. Frank. I look forward to hearing from you.

The President's fiscal year 1991 budget for the U.S. Postal Service totals \$410.7 million. This amounts to \$112 million less than the budget request of the U.S. Postal Service which totals \$522.7 million. The \$112 million difference is reflected in the administration's legislative proposal to eliminate the uses of certain classes of mail from the revenue forgone subsidies.

Mr. Postmaster, I want to spend some time on the Revenue Forgone Program this morning. I am pleased that you have asked Mr. Charles Clausen, the Chief Postal Inspector, and Mr. Harold Hughes, your general counsel, to join you today to help us go through this a little bit so we have a little better understanding from the committee point of view.

Senator Domenici is on his way. He will be here shortly, but you may proceed, Mr. Postmaster General. If you want to introduce everybody, please do.

STATEMENT OF ANTHONY FRANK

Mr. FRANK. Thank you very much. In addition to Mr. Clausen and Mr. Hughes—Mr. Hughes is our new general counsel for the past 4 days.

Senator DeCONCINI. Welcome, Mr. Hughes.

Mr. HUGHES. Thank you.

Senator DeCONCINI. You don't look too beat up. [Laughter.]

Mr. FRANK. We have our Deputy Postmaster General, Michael Coughlin, and our chief financial officer, Mr. Comer Coppie.

PREPARED STATEMENT

I have submitted a statement. In the interest of time, Mr. Chairman, I propose not to read it, but to ask that it be received for the record.

Senator DeCONCINI. That's fine.

[The statement follows:]

STATEMENT OF ANTHONY M. FRANK

Mr. Chairman, it is a pleasure to be here today to discuss the Postal Service's appropriation request for fiscal year 1991.

The President's budget recommends that the Postal Service receive a net appropriation of \$410,734,000 for fiscal year 1991. This is a reduction of \$79,116,000 from the amount received for fiscal year 1990.

REVENUE FORGONE APPROPRIATION

Of the amount recommended by the President, \$372,592,000 would be for revenue forgone on reduced postage rates. This amount assumes enactment of the administration's recently submitted legislative proposal to narrow the eligibility of certain types of mail or mailers for subsidized rates. The proposed new restrictions would affect (1) nonprofit second-class mail containing more than 10 percent advertising; (2) nonprofit third-class mail containing political advocacy, advertising for products or services, or mailings of educational organizations that are not schools; and (3) library-rate fourth-class mail sent by publishers.

Without changes in the law, the net appropriation needed to maintain all free and reduced-rate mail at the currently authorized level in fiscal year 1991 at present rate levels¹ is \$484,592,000. If Congress decides not to provide the full appropriation, the law authorizes the Governors of the Postal Service to protect other mailers against loss by adjusting the subsidized rates as necessary to make up the shortfall.

¹ The Postal Service has filed with the Postal Rate Commission proposed increases in rates which are likely to become effective early in calendar year 1991. A general rate increase taking effect during fiscal year 1991 will increase the amount of the appropriation needed to reimburse the Postal Service for revenue forgone on free and reduced-rate mail. Under the Postal Service's filing, we estimate that the total appropriation needed for the fully authorized subsidy level would rise to \$515,788,000 for the fiscal year. Unless Congress elects to cover the rate increase in advance through the regular fiscal year 1991 appropriation act, the effect of the rate increase would show up in the reconciliation adjustment submitted for fiscal year 1991 when final audited mail volumes become available for that year.

RECONCILIATION ADJUSTMENT

By law each year's appropriation request must include an amount to reconcile appropriations for prior years based on final audited mail volumes as they become available. Based on preliminary estimates, the fiscal year 1988 appropriation provided \$535,545,000 for free and reduced-rate mail. Audited mail volumes for that year now show that \$507,347,000 is the actual figure required to fully reimburse the Postal Service for the services provided. The excess amount—\$28,198,000—is proposed for return to the Treasury as an offset within the budget request for fiscal year 1991.

TRANSITIONAL APPROPRIATION

The budget submission also proposes \$38,142,000 for fiscal year 1991 for transfer to the Department of Labor. This request covers workers' compensation payments for former Post Office Department employees disabled by work injuries prior to postal reorganization. While we pay the workers' compensation costs for our own employees, the law places responsibility for these remaining Post Office Department injuries on the United States, not the Postal Service.

PUBLIC SERVICE APPROPRIATION

Although an annual public service appropriation to the Postal Service is authorized by law, none has been made since fiscal year 1982 and the Postal Service again is not requesting one this year.

Mr. Chairman, I would be pleased to respond to any questions.

INCREASE IN FISCAL YEAR 1991 REVENUE FORGONE REQUEST

Senator DECONCINI. I am just going to go into some of the questions we have.

For fiscal year 1991, the Postal Service's budget request includes \$484.5 million for revenue forgone subsidies for all classes of preferred-rate mailers. The amount is \$31 million above the fiscal year 1990 level of funding.

The subcommittee received your March 30, 1990, letter stating that, if the proposed postage rate increase goes into effect on February 1, 1991, additional funding requirements not included in the budget request will be needed to maintain the current subsidy level for preferred mailers.

Mr. Postmaster General, I don't see how this subcommittee is going to come up with an increase of \$62 million for postal subsidies particularly when so many other programs under our jurisdiction have been cut. First of all, can you explain to us why the postal subsidy for revenue forgone will continue to increase as postal costs increase, for certain mailers?

Mr. FRANK. I will try to do that, and my experts will fill in for me.

Senator DECONCINI. That's fine, if you want somebody else to do it. I rely on experts all the time.

Mr. FRANK. Basically, our costs go up, and the preferred mailers get a discount, if you will, from conventional rates. Our rates will go up, roughly, midyear fiscal 1991. The cost of the subsidy received by the preferred mailers will also go up at that time.

Senator DECONCINI. So it would take a change in the authorization here as to those mailers.

Mr. FRANK. Yes; or it could be adjusted when the audited figures come in.

Senator DECONCINI. The Postal Rate Commission that sets the rates cannot do that; right?

Mr. FRANK. No.

Senator DECONCINI. Have we reached a point where the preferred mailers are going to have to start paying a portion of the institutional cost and not just the attributable cost?

Mr. FRANK. That really is a matter for the Congress to decide. We only administer the program.

Senator DECONCINI. So you think the policy decision is up to Congress as far as this issue is concerned?

Mr. FRANK. It is. We attempt to administer the policy fully and fairly. It is a matter of major consequence. There are some 300,000 organizations that mail under this provision. They send some 17 billion pieces of mail. It has a lot of consequences.

Senator DECONCINI. You just gave me the volume of the rate for fiscal year 1991.

Mr. FRANK. Seventeen billion pieces.

Senator DECONCINI. Seventeen billion pieces of mail go out in this category?

Mr. FRANK. Yes; under this category.

Senator DECONCINI. What kind of increase do you anticipate, or do you anticipate one at all?

Mr. FRANK. I'm not sure.

Senator DECONCINI. And what is the history of that? Does anybody know?

Mr. COPPIE. It averages about 5 percent a year, Mr. Chairman. The largest gross category is the third-class preferred mail. We will provide for the record illustrative examples of what the current rates are and what the rates will be if the rate proposal before the Rate Commission is approved. They range from a low of 2 percent to a high of about 32 percent, depending on what category of preferred rate we are talking about.

REVENUE FORGONE SHORTFALL

Senator DECONCINI. What would be the impact, Mr. Postmaster General, if the Congress did not provide the full increase of \$62 million? Couldn't you just apply it to the reconciliation adjustment of your operation or not?

Mr. FRANK. Our legislation provides that, if we don't have enough money for a preferred-rate category, we can raise their rate. I believe that is what the Governors would do.

Good morning, Senator.

Senator DOMENICI. Good morning.

Mr. FRANK. Recently, the revenue forgone appropriation, based on actual volumes, has been less than the appropriation request, and that reduction is applied to the next appropriation request.

Senator DECONCINI. That would be just to defer it to the next reconciliation; right?

Mr. FRANK. Yes; but it rarely is anywhere close to \$62 million.

Senator DECONCINI. If we don't give you the money, just so I understand this—I'm not suggesting or telling you we are not going to, we are going to try to accommodate your needs—if we don't appropriate the money and you are short, then you go back to the Rate Commission and request an increase in rates?

Mr. FRANK. No, sir; we go to our Governors. The Governors are permitted to adjust preferred rates in that instance.

Senator DeCONCINI. Then the Governors could adjust the rates for these preferred mailers?

Mr. FRANK. That's correct.

Senator DeCONCINI. That is part of the authorization, I presume?

Mr. FRANK. Yes.

Senator DeCONCINI. So there are two ways to do it, really. The first is, by denying you the operating funds, your Governors can make up at least the amount you are denied. The other one is for Congress to change the policy.

Mr. FRANK. I suppose there might be a third one, which is to work with us in eliminating a certain proportion of the mail that—

Senator DeCONCINI. Right. That falls under that category.

Mr. FRANK [continuing]. May be abusing the preferred-rate category. That, again, would reduce the appropriation that Congress is called upon to make.

Senator DeCONCINI. And you can do that; is that right?

Mr. FRANK. I will ask our counsel to speak to that. We think we are right at the edge where we have some legal difficulties in changing our regulations. If we wish to do that, we really need legislation.

Senator DeCONCINI. To be able to do it.

Mr. FRANK. To do it without considerable risk in the legal area.

Senator DeCONCINI. Senator Domenici, do you care to make any opening statement or, if you need to go, I'll let you ask some questions.

Senator DOMENICI. I have 30 minutes, so I can stay.

Senator DeCONCINI. I'll just ask a few more questions.

Senator DOMENICI. Of course. Go ahead.

PROPOSED CHANGES TO PREFERRED-RATE ELIGIBILITY

Senator DeCONCINI. As you recall, Mr. Postmaster General, last year, the committee attempted to authorize changes to the Revenue Forgone Program, which would have eliminated the subsidy for mailings containing advertising for products and services unless those services and products were directly related to the primary mission of the organization which qualified it for the preferred-rate mailer status. The proposal was rejected in conference committee and, instead, language was included in the conference report instructing the Postal Service to develop recommendations on how to correct abuse of the program.

We received your February 1 letter not too long ago, which suggests legislation eliminating the use of all commercial advertising for preferred-rate mailers. This approach goes much further than the approach which the committee proposed last year.

Can you explain for the record why you're suggesting an outright commercial ban on advertising and why the changes suggested by the committee last year would not be feasible and would be more realistic.

Mr. FRANK. Let me take the first half and ask Mr. Coughlin to take the second.

What we have suggested in the February 1 letter was that the cooperative mailings with commercial enterprises be prohibited. That would reduce the revenue requirements, in rough terms, by about 5 percent. It seems to us to be fairly crisp and clean and understandable.

One of our problems is acceptance. We have 40,000 facilities. We can't have people in all those facilities making legal and financial determinations under the pressure to keep the mail moving.

It seems clear to us that there are some abuses and that some relatively few commercial enterprises are working with relatively many nonprofit enterprises to mail out commercial products and services under the preferred rate.

We think just a clean prohibition of the mixing of a product or service for profit that is not generated by the nonprofit organizations would be a fairly crisp—

Senator DECONCINI. Is it a matter, also, of enforcement?

Mr. FRANK. Very definitely.

Senator DECONCINI. If you did what the committee suggested, then you have to be the enforcer whether or not it is, in fact, directly related or not; is that the problem?

Mr. FRANK. We don't mind being the enforcer, but we need something that can be understood by thousands of people who are under the pressure of accepting large volumes of mail and by the community with which we deal; namely, the 300,000 mailers. What can we do and what can't we; that's what they want to be. Easily understood.

Senator DECONCINI. Are you familiar with the language we had last year?

Mr. FRANK. I am generally.

Senator DECONCINI. Was it not definitive enough in your judgment?

Mr. FRANK. I believe that is correct. I'll let Mr. Coughlin speak to that.

Mr. COUGHLIN. The Postmaster General hit the basic problem on the head from an administrative point of view.

We have thousands of people out there who are being put in the position where they are being asked to make decisions with some guidelines that are not as specific as we would like to have them. It becomes extremely difficult to make some of those decisions in that environment.

Senator DECONCINI. Let me just pursue this so that I understand it. Is it impractical to legislate that direct relation when it means that a university, for example, must have a 50-percent participation in it?

Mr. COUGHLIN. Even a standard like that, Senator, I think, becomes very difficult for an acceptance clerk on the dock to decide.

Senator DECONCINI. Yes; and I realize that to be a big burden, but can you not require mailers who use this preferred rate to submit an affidavit under oath that they certify that this is whatever percent it is?

Mr. COUGHLIN. The answer to that is, yes, basically.

Senator DECONCINI. That doesn't mean that they wouldn't violate it, but at least they would be subject to a penalty.

Mr. COUGHLIN. Yes; I think the answer is, yes, but I think Mr. Hughes is better equipped to expand on that.

Mr. HUGHES. Basically, Senator, it is much easier for us to give the mailers clear guidance and avoid the problem than to pursue remedies after the fact by determining, through their contracts and financial arrangements, who would be benefited from the mail and then go after the mailer to make good that amount.

Senator DECONCINI. Let me ask you this. For purposes of pursuing this legislatively, and I realize this may be an unfair situation seeing that you have already replied to our request in the conference report, can your counsel suggest at least some alternatives for us to look into?

Mr. FRANK. Of course.

Senator DECONCINI. And can you supply us the pros and cons of each recommendation because I thought we had a good idea last year, and maybe it wasn't, and maybe I can be talked out of it, but the abuse was so clear that I found—my own university gets rebates from banks and from travel agencies that they really didn't do anything for except to allow them to use that mailer. That is what I was trying to get at and so, when our language was not accepted in conference, we said, you guys come back with something acceptable. What you came back with was a total ban. I guess, I'm asking can you come back with anything else so we might look at it and decide what the pros and cons are.

Mr. FRANK. We'll put our heads together and do that.

[The information follows:]

LEGISLATIVE ALTERNATIVES

In response to the Subcommittee's invitation during the appropriations hearing on April 5, 1990, the following measures are submitted to assist in resolving the problem of cooperative mailings.

Prohibition of Commercial Advertising.—Prohibit the use of special nonprofit rates to send mail which advertises any product or service produced in whole or in part by a person or organization not authorized to mail at the special rates.

PRO: Could be enforced by mail acceptance personnel with minimal additional training; would not measurably delay acceptance procedures; would solve problems with "after-the-fact" investigation of abusive practices; would be difficult to evade.

CON: Would generate controversy by applying across the board to arrangements between nonprofit organizations and commercial vendors, including the minority of programs which qualify under existing rules.

Prohibition of Specific Uses.—Prohibit the use of special nonprofit rates to send mail which advertises specific products or services, such as insurance, credit cards, and travel arrangements.

PRO: Would focus on those promotions which appear to generate the greatest volume of improper mailings; could be enforced by mail acceptance personnel with minimal additional training; would not measurably delay acceptance procedures; would solve problems with "after-the-fact" investigation of some abusive practices; would be difficult to evade.

CON: Would eliminate only a portion of known abuses; would preserve "after-the-fact" enforcement problems with ventures not specifically covered; would be ineffective against newly invented schemes ("affinity" long distance telephone service is a hypothetical example).

Joint Liability for Postage Deficiencies.—Authorize the Postal Service to hold both the nonprofit organization and its commercial associates jointly liable for the payment of additional postage when it is determined that the special rates have been used for a cooperative mailing.

PRO: Would justly and reasonably require the commercial promoter to pay the additional postage on mail sent for its economic benefit; would expand pool of financial assets available to pay deficiencies; would discourage irresponsible or deceptive behavior by commercial promoters.

CON: Might lull nonprofit permit holders into a false sense of security when dealing with commercial promoters; would not cure problems with "after-the-fact" enforcement of cooperative mailing rules.

Suspension of Permits.—Authorize the immediate suspension of the nonprofit mailing permit held by an organization which fails to make timely payment of a postage deficiency after the exhaustion of its administrative appeals.

PRO: Would facilitate collection of funds due the Postal Service by denying use of the special bulk rates to organization until deficiency was resolved; would discourage tendency of some mailers to ignore deficiency assessments.

CON: Might create hardship for some organizations, particularly where deficiency resulted from sharp practices of commercial promoter or an honest mistake; would not cure difficulties associated with "after-the-fact" enforcement of cooperative mailing rules.

Penalties.—Establish a civil penalty of \$5,000 or double the difference between the special and regular rates of postage, whichever is greater, for using or causing the use of a nonprofit permit to send a cooperative mailing.

PRO: Would deter abuses of the nonprofit mailing privilege by establishing a penalty other than the simple payment of the correct amount of postage; would allow penalty to be assessed against both the nonprofit mailer and the commercial promoter who caused the mailing to be made.

CON: Unless combined with deficiency assessment; imposition of penalties might be delayed by separate administrative proceedings and appeals; would not resolve problems with "after-the-fact" enforcement of cooperative mailing rules.

ELIMINATING THE AFFINITY CREDIT CARD

Senator DeCONCINI. Yes; Pat Lynch just mentioned one example of just eliminating the affinity credit card, which seems to be a clear violation of the intent.

Mr. FRANK. Yes.

Senator DeCONCINI. Now maybe that's what you had in mind when you said commercial. Maybe that's the big abuser.

Mr. FRANK. That certainly is one-third of it. It's insurance, financial services, travel, and affinity cards. That's probably 90 percent.

Senator DeCONCINI. Ninety percent; all of those amount to about 90 percent.

Mr. FRANK. Yes, sir.

Mr. COPPIE. We are taking two steps, Mr. Chairman, to strengthen our administration of the program. One is a revised regulation on the deficiency that has been assessed against a violator and, two, we are going to introduce/distribute an enhanced certification that will have a great deal of educational material associated with it, so that the mailer knows exactly what will happen if the mailer is compromising the current standard.

We don't feel that is going to go far enough in terms of meeting the intent of this committee.

Senator DeCONCINI. Mr. Postmaster General, for my purposes, is it your opinion that we really ought not to be subsidizing these commercial enterprises with this mailing?

Mr. FRANK. Yes; it is. It is an abuse. May I say the other way. I think that this type of mail, the overall category of preferred mail, is very important to the United States. It is the life blood of many organizations and many people. To jeopardize it because possibly 5 percent, by dollar amount, is being abused, is something that we need to avoid. This is much more than the dollars. I worry about the other 95 percent because the public's attitude on this can point to the abuse and invalidate all the good things that are being done.

Senator DeCONCINI. Senator Domenici, I yield to you for questions you may have.

Senator DOMENICI. Thank you, Mr. Chairman.

Mr. Postmaster, let me ask just fundamentally what is the intent as you see it of this subsidy that Congress has rather generously provided? Obviously, there is a great deal of pressure to continue it. What are we trying to do with this as you see it?

Mr. FRANK. As I understand it, the Congress sought to facilitate communication by mail for nonprofit organizations with their members and constituents and to make it more economical for them to communicate.

I should say that, while this category is a lot of money—\$500 million is a lot of money—it has been reduced quite a bit. It was close to \$1 billion at one point.

Senator DOMENICI. It was right at \$1 billion when Ronald Reagan went in office. I recall that.

Mr. FRANK. I believe so.

Senator DOMENICI. Let me just ask. It seems to me that we are in a dilemma because many people are complaining about the 30-cent stamp. Frankly, I do my best. I have gathered up a lot of numbers about what a good deal that still is and try to convince people that we write more letters and send more mail than any other country in the world. What is the percent of our activity?

Mr. FRANK. Forty percent.

Senator DOMENICI. Yes; we do 40 percent of the world's mail business. So, I mean, the Postal Service is a big-ticket item in our lives. But I think that any effort on our part to try to distinguish the percent of a mailing that is truly charitable and nonprofit and the percent that is business oriented is just folly. It is going to lead down all kinds of paths. I am convinced that if we are going to fix it, we ought to fix it based on something much more fundamental.

ABUSE OF NONPROFIT MAILING PRIVILEGES

Let me tell you of another area that gets very, very confusing;—and I get a lot of very, very angry constituent letters, and I would imagine my chairman does—under the rubric of nonprofit. You have nonprofit organizations that are in business, if business is defined as there being a significant private sector activity that is similar to that for which that private sector cannot get the subsidized rate.

We don't have to use names, but there are a lot of them. I am now getting a very large group of insurance people in the country saying, Look, when we mail, we are trying to make money and hire people and contribute to this process, and we have to use regular rates, but now we have some nonprofit organizations that are getting into the insurance business and, because that's part of their alleged nonprofit mission, they have a real advantage over us.

Senator DeCONCINI. Why don't they go get a university and mail out to the university? [Laughter.]

Senator DOMENICI. They could. That is why I'm saying this whole approach is sheer folly. It seems to me we ought to start talking about whether the mailer contains anything for which there is a private-sector competition.

Mr. FRANK. We are saying that almost, but not quite. In our recommendation, we are saying that if the nonprofit produces the

product or service, the mail should continue to qualify for the subsidy. The Senator is saying he's not sure about that.

Senator DOMENICI. I'm not saying anything yet because I throw this out. If we are going to change policy, we ought to for once find out in advance what we are talking about, so we know. But I don't think the line of distinction may be clear enough to just take a university and say, well, you can't be in the travel agency business to try to get money for the university.

I don't think that's enough of a line of distinction on what we're trying to do. Somewhere we have to get to a basic premise of what this is for. We all know it's for the Boy Scouts, the Salvation Army, the United Fund, et cetera, to solicit contributions; that's what we had in mind.

Now we have all different little colors of fundraising activities occurring and, frankly, if we are going to fix it, we ought to fix it in a more logical manner even if some people get angry. I mean, we've got a lot of constituents angry on the other side.

What do you think? Do you think that it ought to really be ratcheted down where we are really only helping nonprofit organizations with their nonprofit activity. If their nonprofit activity is in competition with private-sector people, should they be included or not in your opinion?

Mr. FRANK. The bulk of the problem is in the cooperation between a commercial enterprise and a nonprofit enterprise. We believe that is the bulk of the problem. Even that is only 5 percent of the overall aspect of the entire program.

I suppose we don't even need to be the instrument of recompense. The Congress, I suppose, could authorize somebody to deal directly with the 300,000 entities and give them checks in exchange and so on. It just wouldn't work very well.

I think we are pretty close to eliminating the abuse. I don't know how to comment on that very, very small aspect that you are asking me about—the nonprofits engaging directly in activities that are competing with the private sector. I don't know how to answer that. I really don't. But it is a very, very small aspect; maybe 1 percent or so.

Senator DOMENICI. So what you are saying is—and I am not critical—that really is somebody else's policy decision, not yours, and I buy that.

Mr. FRANK. I'm afraid I do. It sounds awfully bureaucratic, but I do.

Mr. CLAUSEN. Another point, Senator, the example of the university going into the travel business, nothing in our regulations says they shouldn't be in the travel business. It is just that, when they act in the furtherance of the travel business, they should not use the nonprofit mailing rate.

Senator DOMENICI. But you don't have very many examples of a university being in the travel business. You have examples of a university doing a cooperative venture with some entity that is in the travel business.

Mr. CLAUSEN. Engaged in that; yes, that's correct.

Senator DOMENICI. My question, since I am talking theoretically, is if, indeed, you had a university that was literally in a cooperative venture with the travel business—it got in European travel

years ago and now promotes a travel agency as part of the University of x and there are five little travel agencies in that same town that come traipsing up to a Senator's office and say, Hey, look, they shouldn't be getting this freebie. We don't get it—you are saying that isn't a very big issue sizewise anyway.

Mr. FRANK. Not yet. In other words, it's possible that, if you pass what we recommend, that will drive institutions into doing what you described.

ALAMOGORDO POSTAL FACILITY

Senator DOMENICI. Could I ask just two very parochial questions of you. I'm disturbed about the construction of certain post offices or the failure to construct them or, even more specifically, the apparent change of plans that has occurred in the last 3 or 4 years that has caused a number of communities in my State—and I'm sure that you are getting letters from Senators all over the country—to ask what's happening.

I know how all these changes occurred at least from your head-quarter's standpoint. They occurred when your capital improvement account was substantially diminished midstream, and you had a long-term plan.

Frankly, I'm going to agree that that is the cause of most of this confusion, although I did find in the middle of that that there was some degree of confusion that existed even without the imposition of that problem. I hope that we know what part of the country is in charge of which buildings and that they are moving with the same information, not two different sets of information.

What about the Alamogordo Post Office; can somebody tell us? It's a dynamite issue in that community. I happened to go see it and talk with them, and I think they need a post office desperately.

Mr. COUGHLIN. Senator, I guess I'm in the position of having to tell you that, unfortunately, our people who manage that operation out there just simply do not agree that we need a new facility in Alamogordo, at least in the short run. They do agree that it is crowded. The major problem appears to be a parking issue. Apparently, there is some parking that exists around the side or behind the building that is not used very much by those who come to the Post Office. The judgment right now is that a new facility is not needed in the short run.

We are about to advertise for a community post office, a contract operation, to supplement the service we provide in Alamogordo. That would help relieve some of the congestion that is perceived there in terms of the retail operations.

Senator DOMENICI. What does that mean?

Mr. COUGHLIN. It would be a contract post office that would sell stamps and provide all the services that the retail side of the post office in Alamogordo now provides. It would be in addition to the services that the current facility provides.

Mr. FRANK. It would be a commercial retail facility.

Mr. COUGHLIN. Yes; it would be a commercial retail facility.

Senator DOMENICI. Is that proceeding?

Mr. COUGHLIN. Yes; they expect to award a contract for such an operation within the next 90 days.

Senator DOMENICI. Your experts say that will alleviate some of the problems that exist now?

Mr. COUGHLIN. Yes.

Senator DOMENICI. I would appreciate it if you would give me something in writing about that at your convenience.

Mr. COUGHLIN. I will.

[CLERK'S NOTE.—See response to question 19 submitted by Senator Domenici.]

BELEN POST OFFICE

Senator DOMENICI. What about the one in the little town of Belen?

Mr. COUGHLIN. Belen has been advertised for a new lease facility. It is expected to be awarded in May or June. They fully expect that facility to be completed and on line before the end of this calendar year.

Senator DOMENICI. Thank you. I regret to use the record for that kind of issue.

Senator DECONCINI. No; just wait, hang around. I have some. [Laughter.]

Senator DOMENICI. I didn't think we could conceivably be the only ones that had such problems. [Laughter.]

POSTAL PRODUCTIVITY

Let me just ask a general question about the Postal Service so we will have something on the record. Obviously, you are engaged in a race toward modernization in an effort to increase the productivity of this very gigantic service organization. I think it might be appropriate for you to just take a couple of minutes and, as frankly as you can, tell us how you view that effort, what are some of the more serious problems you face, and give us your notion of whether we are going to succeed in increasing the productivity of the Postal Service.

Mr. FRANK. I appreciate the opportunity to do that. It is uppermost on our minds. We spend most of our time doing that. We will be going through more change in the Postal Service in the next 4½ years, and not to be overly dramatic, than maybe in the last 200 years. We really are making a lot of change. It has been going extremely well in recent months.

I will give you some figures. The first round of our major automation-equipment deployment was completed in May or June 1989. That was a high point of employment in the Postal Service. Since that time—really, 8 months or so—we have reduced the permanent complement of the Postal Service by 20,000 people, all through attrition. That is a saving, in round terms, of approximately \$800 million on an annual basis.

Our productivity, which had been going down, not up, for some quarters, started up immediately at the end of deployment in May or June; that is, the fourth quarter of fiscal year 1989. It showed an increase of 0.8 percent during that quarter. The first quarter of 1990 showed an increase of 2.1 percent. While we don't have the figures for the second quarter of 1990, we're confident that it will

be somewhere between those two figures. We are ahead of our fiscal year target in productivity.

Our deficit for this year, 1990, was projected at a horrendous, explainable I suppose but horrendous, \$1.6 billion loss. Through the first half of the year, approximately, 6 of the 13 accounting periods, we were \$290 million better than budget, so it does appear that the loss for the year will be less.

AUTOMATION PLAN

We now see and have approval from our Board of Governors as of Tuesday, to move along with our expansion program in automation. At its most basic, it provides that there be a bar code on every single item with which we deal—letter, flat, sack, pallet; everything—by 1995. We look as if we are on or ahead of schedule in order to accomplish that.

The rate filing that we filed on March 6, Senator, provides for substantial incentives to large-volume mailers to put bar codes on letters before we get them, and that, again, is part and parcel of this program.

So, I find myself in the strangest position that I suppose anybody ever found himself—this is an enormous rate increase that we are requesting. We are going to have an enormous loss, but I have never been more optimistic about what's happening. It's going very well in terms of complement reduction, productivity increase in comparison to target and, finally, in dovetailing together all the disparate parts that are required to automate the Postal Service.

LABOR NEGOTIATIONS

We do have one more major item, watershed, this year and that, of course, is our labor negotiations. Our labor contract expires November 20. We will be commencing to negotiate in early August and that, again, will be a major factor. Of the 30 cents that we are applying for next February, 25 cents relate to people. I can't put it any more graphically than that. So, obviously, we are going to have to deal with people.

I have said publicly that I am looking for labor restraint in terms of wage increases, benefit programs, and work-rule flexibility. I am as sure as I sit here that we will get some of what we want but not everything. The unions have a list of their objectives, and they will get some of what they want but not all of them. I believe, working together, we can achieve our strategic plan.

The last sentence, I am sure is a longer answer than you counted on. Our strategic plan says that we should operate at 2 percent below the rate of inflation. For the American people to think that postage rates will not go up is just absolutely incorrect. Of course, they go up, so does everything else in this country, but they should go up at less than the rate of inflation. I think we can do that.

Postal Service costs increased at twice the rate of inflation in 1988. There are a lot of reasons for it. So far this year we are operating at 1 percent below the rate of inflation. So we are making real progress.

EQUIPMENT PROCUREMENT

Senator DOMENICI. Could I just ask one last question in that regard. How is your equipment modernization procurement program going? And, also, do you see any daylight with reference to the design concepts which are currently almost exclusively in foreign hands, even the new procurement contracts to American companies, like Martin Marietta, Westinghouse, or General Electric—whichever one. They are operating essentially off West German design and patent ideas.

I think if you are going to have a multibillion-dollar, multiyear program, it is kind of folly to not have a sister program that is encouraging in a very direct and meaningful way American ingenuity to get into the next generation of that.

Would you just quickly tell us how the procurement program is going, and what do you think about getting that design from a captive West German ownership to an American one.

Mr. FRANK. I will take it in two parts.

When I came to the Postal Service 2 years ago, I was very alarmed at the very small number of suppliers. We have made it a major program of the Postal Service to expand an array of suppliers on major procurements. I think, partially as a result of that effort, but much more through changes in the defense procurement in this country, we are seeing for the first time major suppliers—Westinghouse and Martin Marietta being two of them—bidding successfully on our programs.

It is pretty clear why they are doing it—they feel that defense expenditures are going down. So we are very pleased at the fallout of that, and a couple of them, even though they used West German designs and even though a royalty had to be paid, the contracts came in substantially under what we had anticipated. So we are very pleased.

Yes; we are using a lot of West German designs. There is a lack of willingness in this country to invest in research and development and design. We do some of it ourselves, but we have a very limited budget.

On major procurements through payments, even through the pilot program, we tried to get additional companies to make an investment. That has been a mixed success. We will be working this summer—this is not going to make you very happy—with some English designs. I don't know how much better that is than the West German. There is a problem in that regard. They are all made in this country. We are starting to see some of the companies in this country that supply us starting to supply other countries with American production. I know there is a company in Texas that will be providing equipment along our lines to Canada, but made in this country.

Mr. Coughlin, is there anything you would like to add along this line?

Mr. COUGHLIN. We are already under contract for what we think will be the last of those machines that we will buy. There is a new generation of what we call the bar-coding equipment, computer-resolution equipment, which does have some American competitors as well as foreign competitors. We are hopeful that some of the efforts

that the Postmaster General described to expand that supplier base, which includes American designs, will be successful in the future. The contract award will depend, again, on price and performance in the final analysis.

PRODUCTIVITY MEASUREMENT

Senator DOMENICI. My last question, Mr. Chairman.

With reference to your concepts of increased productivity, first, anyone in a policy position would be insane if they did not concur that that's the issue. Any service organization that's personnel driven in a modern economy has to move toward productivity increases or not make it. That's normally brought about in the marketplace by competition. You are doing it because it's obvious that the bottom line is the cost to the American people for the service, and they won't nor will their representatives sit by and not see some enhancement of productivity so that we are not constantly raising the rates beyond what's reasonable.

How confident are you that your productivity models are relevant so that, if you tell Congress, as you have just told us, that productivity is going up, it really is? I have found that, for most service-delivery systems in the United States, there is no real measurement of productivity. I would think yours is different because it can clearly be modeled within house. There is none on health care, for instance—we don't know how to do that—nor is there any in education. Are you confident that these are accurate numbers? Has everything been taken into consideration?

Mr. FRANK. Two aspects: One, is the methods that we use. We call it total factor productivity, which is more than labor productivity. It says, when you replace labor with materials and machines, you charge yourself for the money and for the resources that are used—total factor productivity.

Senator DOMENICI. And any subsidies are part of the cost—

Mr. FRANK. Yes, sir; it's all taken into consideration.

Senator DOMENICI. Including what we put in the general fund for health care and life insurance; that's all in there? Our National Treasury commitment, is that part of the cost or is that not assumed?

Mr. FRANK. I'm not aware of what is being paid from the National Treasury. We pay all health-care costs for our employees. We pay health-care costs and adjustments for retirees since 1986. There are some retirees that were the responsibility of the Post Office Department. Clearly, that should not be our responsibility. They didn't work for the Postal Service, so there is no work to offset the expense but, yes, it is a good figure. We work with outside consultants and with the Labor Department, and it seems to be a generally accepted thing. We are very careful on it because it's very complicated.

How confident are we about the projections? The Postal Service has made substantial mistakes in the past in estimating productivity. I think we have learned from those mistakes. We have made progress in the last three quarters—certainly, one quarter or one swallow doesn't make a summer—but three quarters is starting to be a trend.

We are confident about the productivity. We are proposing an overall productivity increase of 4.7 percent by 1995. By 1995, our revenues will be approximately \$60 billion, so 4.7 percent of \$60 billion will be on the order of \$3 billion a year that we hope to save in productivity. We are confident that we will meet or exceed that, and we are well on our way to doing that.

Senator DOMENICI. My reference to the general fund has to do with retirees, where we are paying a portion of the health benefits, which is a rather substantial amount, and you have given me the answer. You are not including that, and your rationale is as you gave it.

Mr. FRANK. Yes, sir.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator DECONCINI. Thank you, Senator. Let me follow up on Senator Domenici's productivity question because it is of concern to me. I have been under the impression, and I guess I am a little bit behind the curve, perhaps, that the productivity of the Postal Service has actually exceeded that of the productivity nationwide in various selective industries. Is that correct? Was that ever the case?

Mr. FRANK. Yes; it was the case.

Senator DECONCINI. Up until when?

Mr. FRANK. When we are in a different phase than the general economy—when the economy has slack in it, its productivity goes down. When the economy is booming along and the people are very efficient, the productivity goes up, and it is greater than ours. So we have different comparisons.

We have been below national productivity.

Senator DECONCINI. For how long, Mr. Postmaster General?

Mr. FRANK. I would say for the last 2½ or 3 years.

Senator DECONCINI. About 2½ years. And, before that, you were above the national average?

Mr. COUGHLIN. Senator, the period between 1971 and 1987, the Postal Service matched on a total-factor basis—essentially matched—the nonfarm sector productivity, a cumulative increase, over that period of time.

Senator DOMENICI. You had some years that you exceeded that, did you not?

Mr. COUGHLIN. We certainly did and very much so. In fact, in some sectors of that nonfarm area, particularly the service sector, we were substantially better than the service sector generally.

I think in 1989 and 1990—

Senator DECONCINI. It went down.

Mr. COUGHLIN. We had a depressed productivity and actually a negative productivity in 1989. Now it has come back.

Senator DECONCINI. Now you have had three quarters of average or above?

Mr. COUGHLIN. Productivity increased 0.8 percent in the fourth quarter of 1989. It increased 2.1 percent in the first quarter of this year, and we think it will increase by close to 2 percent in the second quarter.

POSTAL RATE INCREASE

Senator DECONCINI. On the rate increase that the Board of Governors has approved, can you tell us in your opinion, Mr. Postmaster General—I realize that is a decision that they made but, maybe, you know—why would they do this before you get your labor contracts in November? At the very least, why would they increase the rate by 5 cents and not just take a small increment to get by that period of time? If you don't do so well at labor negotiations and your costs go up and you have to come in for any rate increase, it seems to me, unless the 5 cents is a dire or can't-continue increase, but I got the feeling from the press reports that you were looking to the future and maybe trying to keep from having to come back again so soon. Can you give us any information on that?

Mr. FRANK. The ratemaking system under the legislation passed in 1970 is quite complex. We are required to propose rates which will produce a break-even result in the test year that is selected in a rate filing. Indeed, in our recent rate filing the 5 cents will provide break-even within a very few dollars in 1992.

The ratemaking process requires by law that 10 months be allowed before the proposed rates can be implemented, which I personally think is not right. It has to be modified, but I don't see any effort to do that.

This 3-year, more-or-less, rate-filing cycle and the 3-year, more-or-less, labor cycle is a matter of great difficulty. For one thing, it requires us, really, to factor into the rate proposal how we expect to settle with the unions. That makes it very difficult to negotiate.

On the other hand, I would say we have a realistic figure for labor costs in there this time. Of course, the labor settlement is an unknown; the disposition of the President's budget legislative proposals is an unknown; the amount of volume change is an unknown. But we don't think that we should be going back to the Rate Commission on an annual basis. First of all, that would be a full-time occupation for them and for us, and then we would constantly be increasing postage costs to the American people a penny here and a penny and a half there and 3 cents here. It would drive everybody crazy.

Senator DECONCINI. But you may have to do that. Is it not possible, after your November labor negotiations? What if you don't succeed, and the contracts come in above your expectations? Assuming you can't settle it, you would have no choice but to go back and ask for another rate increase, correct?

Mr. FRANK. No; it might shorten the interval between rate changes—part of your question was why don't we wait until the labor negotiations settle. It will be settled, possibly, on November 20 at midnight or, if it goes to arbitration, which about one-half the labor negotiations do, that could be an additional 5 months.

We estimate that, by February or March of next year, we will be losing money at the rate of several hundred million dollars a month. So each month is a cataclysm for us. We just can't wait that long.

Senator DECONCINI. The rate doesn't become effective until when, February?

Mr. FRANK. Some time in February, we believe, if the Board of Governors adopts the recommendation by the Rate Commission.

Senator DECONCINI. Well, of course. What is the Board of Governors' projections or yours as to, assuming all this comes out correctly, when the next rate increase will be? Do they make any such projections?

Mr. FRANK. They don't, but I do.

Senator DECONCINI. What do you think?

Mr. FRANK. I want to operate at 2 percent less than the rate of inflation.

Senator DECONCINI. So that's your test?

Mr. FRANK. Yes; everybody has their own assumption of what inflation will be. Mine is that it will be somewhere between 4 and 5 percent, I guess, for the foreseeable future. If it's 4 percent and everything goes right, it is within the realm of possibility to wait 5 years and have a 10- to 15-percent increase every 5 years, which I think would be a sensational development, but it's in that area of magnitude.

COMMERCIAL USE OF NONPROFIT RATES

Senator DECONCINI. Going back just for a minute to this question about the commercial mailings, the 5 percent you mentioned here is based on a 1986 survey; is that right?

Mr. FRANK. It's a projection from a 1986 survey.

Senator DECONCINI. It seems to me, and it's from the seat of my pants just from looking at my mail, it has increased tremendously in the last few years. Is that a big cost and who does that survey? Do you do that internally?

Mr. FRANK. That particular survey was done by the Rate Commission but, of course, we do our own in the Inspection Service. I believe, that the Inspection Service believes that recent enforcement on these cooperative mailings is reducing the amount of cost.

Senator DECONCINI. So it's not growing. You don't think it has grown since 1986?

Mr. FRANK. What would you say?

Mr. COUGHLIN. I would say that it did grow considerably for a short period of time.

Senator DECONCINI. From 1986?

Mr. COUGHLIN. Probably, not until after the last rate increase was implemented. When the last rate was implemented—

Senator DECONCINI. Which was?

Mr. COUGHLIN. 1988.

Senator DECONCINI. April 1988. It grew then?

Mr. COUGHLIN. The difference between the full third-class rate and the nonprofit rate was significantly increased and it probably encouraged this kind of activity. I think there were significantly more mailings, in the category that you are talking about, probably during 1988 and into 1989. I know our activity increased a great deal in response to complaints and other things.

Senator DECONCINI. And now you think they are coming down?

Mr. COUGHLIN. It is going down now.

Senator DECONCINI. I guess, my question is don't you think it is time to do another survey? That's 4 years. Is it time for you and,

also, for us to get an idea whether or not it is more than 5 percent of the mailers being used for commercial purposes?

Mr. COUGHLIN. That could be done on the same basis that the Rate Commission has done it.

Senator DeCONCINI. I'm not telling you to do it. It just seems to me like we are dealing with outdated percentages. Five percent isn't anything to ignore. It seems like it is more than that, but that's just an observation.

Mr. COUGHLIN. It has been.

Senator DeCONCINI. Is it a big expense to do a survey?

Mr. COUGHLIN. Well, the last one was done by the Postal Rate Commission, but it can be done in-house, also.

Senator DeCONCINI. Mr. Postmaster General, I hate to turn to these things, but this is what makes my job and what I feel necessary to ask anybody who is the Federal Government. I hope you understand.

Mr. FRANK. Certainly.

MAIL DELIVERY SERVICE IN LAKE HAVASU CITY

Senator DeCONCINI. We receive a lot of contacts from residents of Lake Havasu City, if you know where that is, on the Colorado River concerning mail delivery in their area. They advise me that local mail has been substantially delayed, even as much as 5 days, because it is transported to Las Vegas for sorting and cancellation then returned to Lake Havasu for delivery. I understand all local mail that requires forwarding, even within Lake Havasu City, is also returned to Las Vegas for forwarding, and the residents of Lake Havasu are understandably concerned not only about these delays, but about the fact that their mail carries a Las Vegas postmark. I guess that's not the end of the world. Certainly, if you're from Nevada it's not, but if you are from another State, it doesn't seem to be too practical.

We are getting a lot of letters from residents of Lake Havasu City. I have been kind of keeping track of them, and first figured, well, maybe it's not really of any great consequence but in the delays in the mail being delivered. Can you give us any explanation or if you would like to supply it for the record why the sorting has to be done in Las Vegas.

Mr. FRANK. We will do it more completely for the record, but we do have some indication for you. The 5 days is an exception. I gather the people agree. That's unconscionable.

Senator DeCONCINI. That can be improved?

Mr. FRANK. I think it is a rare exception. People don't notice when it's overnight, which it generally is.

Senator DeCONCINI. Oh, I see. You are saying the examples that they've dug out are exceptions?

Mr. FRANK. Yes.

Senator DeCONCINI. Do you have a way to check that?

Mr. FRANK. Yes.

Senator DeCONCINI. I would like to see the results. It would help me answering the mail. The number of letters on the problem seem to be escalating.

Mr. FRANK. Sure.

Mr. COUGHLIN. We will provide you a summary.

Mr. FRANK. Let's see if Mr. Coughlin can begin to give you a statement on Las Vegas.

Mr. COUGHLIN. What has actually happened there, Senator, for a number of years, they have been canceling the mail locally in Lake Havasu, but it has been going to Las Vegas for distribution, for sorting, even that mail which turns around for delivery to Lake Havasu.

Fairly recently, they started to ship it all, unless it was segregated in a local box—in a local Lake Havasu box—for Lake Havasu destination. It's all being sent to Las Vegas for both cancellation and distribution. I think that is when you begin to hear some of these comments and complaints.

This is a program called area mail processing which has been going on for about 17 or 18 years around the country. Usually the issue that comes up in these situations has to do with concerns of some local people who want a local postmark. It has been our policy, and we've done it in Lake Havasu, we have made available collection receptacles in Lake Havasu where, if the person originating the mail wants that local postmark, it can be put in that box, and it will be postmarked Lake Havasu.

Senator DECONCINI. Could it be that there needs to be more education on that?

Mr. COUGHLIN. Probably. It is my understanding they have done some publicity on that, but I will certainly follow up and make sure that they've done enough.

Senator DECONCINI. Would you, please. It would be helpful.

Mr. COUGHLIN. We will provide you a further and more detailed explanation of what's happening.

Senator DECONCINI. Do you know, or can you find this out, if any other communities in Arizona have that kind of a problem? Like, Kingman; what do they do in Kingman? Do you cancel Kingman mail in Las Vegas, also?

Mr. COUGHLIN. I don't know how it is handled in Kingman off-hand. I do know there is a very large degree of area mail processing in the State of Arizona where mail processing is centralized.

Senator DECONCINI. There is?

Mr. COUGHLIN. Yes; I am sure, for example, in the greater Phoenix area, most of those surrounding offices go into Phoenix for cancellation and distribution.

Senator DECONCINI. That's not so bad if it comes from Chandler or some place like that, but is not very effective from Lake Havasu.

Mr. COUGHLIN. Where we centralize, where we move it like that, depends on our ability to take it there, cancel it, sort it, and turn it around and get it back to that local destination overnight. If we can do that, then all of this helps us to be more efficient, to effectively use that automation that we've talked about here earlier in this hearing.

Senator DECONCINI. I would sure appreciate it if you can give me some information so I can explain it to the people.

Mr. COUGHLIN. OK. We will do that.

[The information follows:]

LAKE HAVASU MAIL PROCESSING

The Postal Service program which provides for the consolidation of mail processing activities at a centralized facility is known as Area Mail Processing [AMP]. AMP is designed to achieve more efficient handling through mechanized and automated processing, and through the more productive use of facilities and manpower. Under this system, outgoing mail which is posted at associate offices within a processing area is taken directly, without local handling, to one of the major processing centers where it can be processed and dispatched far more efficiently. The first real handling occurs at the processing center, which prints a cancellation bearing the name of the community in which it is located plus the state and ZIP Code.

The Postal Service must take advantage of more efficient mail processing techniques, such as AMP, if it is to keep pace with the world's largest domestic mail volume at postage rates our customers can reasonably be expected to pay. Without the cost avoidance provided by the AMP program, postal rates would necessarily be higher today than is actually the case.

We realize the importance of local postmarks to many of our customers. Consequently, in communities participating in AMP, we have designated collection receptacles identified to indicate that mail deposited in them will receive a local cancellation.

Effective February 10, 1990 all outgoing mail canceling operations at Lake Havasu City were shifted to Las Vegas, Nevada. Retained at Lake Havasu City is the postmarking of all local mail, designated as that which is destined for delivery in any town bearing an 864__ Zip Code. In addition to Havasu City, other towns in this 3-digit ZIP Code area include Kingman, Riveria, and Bullhead City. Locally designated mail bearing an 864__ ZIP Code which is deposited in designated "local mail" drops and collection boxes is held out at each of the local post offices and is not sent to Las Vegas for processing. Local mail destined for the immediate vicinity or town is so postmarked and delivered. Other 864__ mail destined for nearby major towns is dispatched via inter-connecting Highway Contract Route transportation.

Havasu City customers desiring a local postmark have been advised to use the collection drops and boxes designated for "local" mail. To improve customer convenience and access to these receptacles, approximately 10 additional "local" collection boxes have been ordered and will be installed in Havasu City in June. Upon installation of this equipment, notices will be provided to advise customers of the locations of these additional "local" receptacles.

ENHANCING PUBLIC AWARENESS

Senator DeCONCINI. In your judgment is there anything that can be done to enhance the public awareness that mail will be delivered if you just put it in the right box? It's not an unreasonable request as long as there is an explanation regarding which box to use rather than just a box sticking out there.

Mr. COUGHLIN. We can increase the number of that kind of box.

ADMINISTRATIVE PROPOSALS ON PREFERRED RATES

Senator DeCONCINI. Let me pursue a couple of other things, Mr. Postmaster General, and then we will let you all go.

What is your position on the administration's legislative proposal to eliminate certain uses of the preferred mail rate for second-, third-, and fourth-class mail? Is the administration's estimate of what would be realized from the proposal accurate?

Mr. FRANK. We think that \$112 million is mathematically accurate. Whether their recommendation should be adopted is a matter for the Congress to decide, but the calculations are accurate.

FIVE-YEAR FACILITY CONSTRUCTION PLAN

Senator DeCONCINI. Can you supply to us for the record your 5-year construction plan. I would like to see where that is for this committee's benefit.

Mr. FRANK. Sure.

Senator DECONCINI. Also, I would like to know whether or not Bullhead City is on that for a postal facility, do you know, offhand? If not, you can let me know.

Mr. FRANK. Sure.

Mr. COUGHLIN. It has been on the list. I know it's been deferred for higher priority facilities. We are just starting a process to relook again at our 5-year priorities.

Senator DECONCINI. Are you familiar with that area of our State at all?

Mr. COUGHLIN. I know it is down there across the river from Laughlin, NV.

Senator DECONCINI. Yes.

Mr. COUGHLIN. It is a growing area.

Senator DECONCINI. It's a huge growth area. They are putting in a regional airport there.

Mr. COUGHLIN. It's possible this could come up higher on the priority list.

Mr. FRANK. There seems to be some shifts in population growth in your State.

Senator DECONCINI. There are.

Mr. FRANK. Casa Grande seemed to have a fast growth, and they were on our list because of that, and the growth seems to have ebbed.

Senator DECONCINI. Right now it has, but the projections indicate that the area of Casa Grande—that was my next question—is going to be coming back screaming, probably, because of its locality between Tucson and Phoenix once the economy has recovered there, and they seem to do that in cycles. Growth won't stay down there, even though it is not very good now.

I would appreciate—maybe you can do this, Mr. Coughlin—an update for the record on the 5-year plan for Arizona. If there are any changes that are dramatic, I would like to have them. It helps us in answering our constituents.

Mr. COUGHLIN. Sure.

[The information follows:]

NEW CONSTRUCTION-OWNED 5-YEAR FACILITY PLAN FOR THE STATE OF ARIZONA,
FISCAL YEARS 1991-95

Fiscal Year 1991 budget=\$11,040,000

- Gilbert, Main Office—Design and construction award.
- Tempe, Downtown Station—Design and construction award.
- Tucson, Desert Foothills Station—Construction award.
- Window Rock, Main Office—Design and construction award.

Fiscal Year 1992 budget=\$5,174,000

- Peoria, Main Office—Site purchase.
- Scottsdale, Fountain Hills Station—Site purchase.
- Tucson, Desert Northwest Station—Site purchase.
- Tucson, El Rio Station—Construction award.

Fiscal Year 1993 budget=\$24,556,000

- Peoria, Main Office—Design and construction award.
- Scottsdale, Fountain Hills—Design and construction award.
- Mesa, Falcon Field Station—Construction award.
- Phoenix, South Mountain Station—Site purchase.
- Casa Grande, Main Office—Construction award.
- Chandler, Chaparral Station—Construction award.

- Mesa, Main Office—Site purchase.
- Tucson, Desert Northwest Station—Design and construction award.
- Tucson, Saguaro Station—Site purchase.
- Sierra Vista, Foothills Station—Site purchase.

Fiscal Year 1994 budget = \$15,906,000

- Phoenix, South Mountain Station—Design and construction award.
- Sedona, Main Office—Site purchase.
- Mesa, Main Office—Design and construction award.
- Tucson, Saguaro Station—Design and construction award.
- Sierra Vista, Foothills Station—Design and construction award.

Major mail processing facilities budget = \$19,780,000

- Fiscal Year 1994
- Tucson, General Mail Facility—Design and construction award.
- Fiscal Year 1995—Projects not yet available.

PLANNED ACTION TO LEASE NEW SPACE: 5-YEAR PLAN FOR THE STATE OF ARIZONA

Fiscal Year 1991:

- Mesquite, Main Office
- Indian Springs, Main Office
- Concho, Main Office
- Second Mesa, Main Office
- Keams Canyon, Main Office
- Fort Thomas, Main Office

Fiscal Year 1992:

- Mammoth, Main Office
- Mount Lemmon, Main Office
- Cortaro, Main Office
- El Frida, Main Office

Fiscal Year 1993:

- Duncan, Main Office
- Claypool, Main Office
- Young, Main Office
- Cochise, Main Office

Fiscal Year 1994:

- Pearce, Main Office
- Sahuarita, Main Office
- Benson, Main Office

PROPOSED GOVERNMENT MAIL SUBCLASS

Senator DECONCINI. I see the administration has once again proposed a creation of a separate subclass of mail for the Government. The administration has projected cost savings of \$220 million in fiscal year 1991 associated with this initiative. Do you know if and when the legislation will be submitted to Congress?

Mr. HUGHES. It was submitted.

Senator DECONCINI. It already has been?

Mr. HUGHES. In March.

Senator DECONCINI. That's Senator Pryor's subcommittee.

Would the estimated savings be \$220 million or do you know?

Mr. FRANK. We have a very strong opinion on it. No; there would not be—

Senator DECONCINI. What do you think it would be?

Mr. FRANK. Well, sir, we think there are about \$150 million of savings in Government mail if the Government would just avail itself of the discounts that we now offer and improve its mail management programs.

Senator DECONCINI. Is that right?

Mr. FRANK. It is just a coincidence that both numbers are in the same ball park. So, far from saying that the Government mail should get a \$200 million rate reduction if we could just get the various Government departments to process their mail the way that the private sector does, they would already enjoy \$150 million or a little bit more in the way of savings.

It is not completely correct to say that Government mail is so well prepared and so efficient and so uniform that they should get an additional discount. It just happens not to be less costly than similar business mail.

Senator DeCONCINI. Who are the biggest abusers of that? Are they the obvious ones, the IRS and the ones that have big thick mailings.

Mr. FRANK. Generally, the larger agencies like Social Security and IRS do a reasonably good job. It is in the medium-sized agencies where there is greater room for improvement.

Mr. COPPIE. It would be the biggest mailers who often would realize the greater savings.

Senator DeCONCINI. Do they consult with you at all?

Mr. FRANK. Some do, some don't. We treat them as clients.

Senator DeCONCINI. They have to take the initiative, primarily.

Mr. FRANK. No; we take the initiative.

Senator DeCONCINI. You don't go knocking on the door and say, Hey, let us help you save some money, Social Security; is that right?

Mr. FRANK. We do take the initiative.

Mr. COPPIE. It is a two-way street, Mr. Chairman.

Mr. FRANK. We had some better success with the Defense Department, and maybe Mr. Coughlin in one or two sentences can tell you what that success was. That may be the way to go for Government mail.

Mr. HUGHES. To save editing the record, I'll mention that the administration's Government mail proposal has been sent up to the Congress. It has not been introduced yet. It was sent up in March, but not introduced.

Mr. COUGHLIN. There are a number of Government agencies, including the Defense Department, that have gone to something we call direct accountability; that is, they are paying the postage prepaid like the commercial mailer does, either through meters or permit imprints, and they are getting a much better accounting of postage bills than other agencies are. I think that is serving them well. There are other agencies where Government mail is not yet on that system. We are working with them to try to move them in that direction.

I might add to some of the earlier comments that some of the large Government mailers, like Social Security, the IRS, and the Census Bureau, are pretty good at capturing some of the savings that are available to them through discounts but, still, the vast majority of Government mail, as the Postmaster General said, could save a lot of money by taking advantage of what's available to them.

Senator DeCONCINI. Does OMB know this, or do you know?

Mr. COUGHLIN. Oh, yes; there have been continuing discussions, and we have pointed these things out to them.

Mr. FRANK. We work closely with them.

Mr. COPPIE. The General Services Administration has documented this time and time again in various requests.

Senator DeCONCINI. As to the amount of savings?

Mr. COPPIE. Yes, sir; they have. I think one other point here, Mr. Chairman, this rate case, as the Postmaster General has pointed out, has substantial work-sharing discounts built into it. The discounts for major mailers—

Senator DeCONCINI. Including the Government.

Mr. COPPIE. Including the Government, can be very substantial. So it is going to be very important that mailings be monitored directly by the Government agencies and that they take advantage of the incentives.

Senator DeCONCINI. Mr. Darman will be here, but do you have any idea why OMB hasn't tried to mandate that across the Government?

Mr. FRANK. No, sir.

DYNAMIC FUNDING OF RETIREMENT COSTS

Senator DeCONCINI. What's the impact of the administration's proposal to increase the Postal Service's share of the Civil Service retirement system contribution?

Mr. COPPIE. The specific dollar impact in fiscal year 1991, Mr. Chairman, would be \$644 million. We would want the record to show that we assumed this responsibility in 1990 through an action that was taken by the Congress for all CSRS annuitants retroactive to 1986. What the administration is proposing here is a change in the way we would pay that. The actuarial term is "Dynamic Funding." That concept was specifically rejected in the legislative history of the adoption of the new Federal Employee Retirement System program back in 1984 and 1985.

We oppose it. We think it is discriminatory. We feel that what Congress did last year is an equitable way for the Postal Service to make the payment for annuitants.

HEALTH BENEFIT COSTS—PRE-1986 POSTAL SERVICE ANNUITANTS

Senator DeCONCINI. What would be the impact of the administration's plan to require the Postal Service to pay the cost for Federal employees' health benefit payments for Postal annuitants who retired between 1971 and 1986?

Mr. COPPIE. That responsibility would be about \$700 million additional expense for the Postal Service in fiscal year 1991. I think, also, the record should show here, Mr. Chairman, that we have been paying this for all Postal Service retirees since 1986. To impose the responsibility for 1971 to 1986, we think is discriminatory. The year 1986, I think, was carefully selected by the Congress. It represented 15 years after Postal reorganization. Any 30-year career employee retiring after that date has a minimum of 15 years of service with the Postal Service.

Before that, more than one-half of their service would have been with the Post Office Department, and we don't feel that current mailers should carry that responsibility.

Senator DECONCINI. You think the old Post Office Department should——

Mr. COPPIE. Well, we think that it is primarily a Government responsibility and not a Postal Service responsibility.

BORROWING AUTHORITY

Senator DECONCINI. What impact does the increase in the Postal Service's borrowing authority have on the capital improvements and operation of the Postal Service?

Mr. FRANK. We very much appreciate the help of the Congress in authorizing the expansion of our borrowing authority, which will permit our capital budget to go ahead as budgeted. Because the requested amount was cut back, we will need to come back some time in 1993 for another increase, but we are right on target.

Senator DECONCINI. Mr. Postmaster General, thank you for the time and all of you for being here. You are very helpful, and we appreciate your submitting the information we asked for. You have a big job and a big task. I realize that our contributions are small compared to what you operate completely with, but we appreciate your time here. We certainly hope that your projections on productivity turn out. You make a strong case for them. I know you have done a lot of work on it. I certainly hope for your sake and the Postal Service and the taxpayers that it works because I think people expect so much of our Postal Service, far more than you are able to deliver.

Thank you.

Mr. FRANK. Thank you, sir.

SUBMITTED QUESTIONS

Senator DECONCINI. Mr. Postmaster General, we will submit our remaining questions to you to be answered in writing.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

1. Mr. DeConcini: I am wondering if you could explain the difference between a cooperative mailing and an ordinary mailing which contains advertising?

Mr. Frank: An authorized nonprofit organization may mail only its own matter at the special bulk third-class rates. As long as the matter is the nonprofit organization's own material, it may be sent at the special bulk rates whether or not it contains advertising. An example might be a nonprofit organization's periodical newsletter or journal in which advertising appears. Cooperative mailings, however, are not solely the nonprofit organization's own matter. Instead, they are mailings which are determined to be in behalf of or produced for an organization not authorized to mail at the special bulk rates, in violation of the proscription against cooperative mailings found in postal regulations.

In making a determination as to whether a mailing is cooperative, the Postal Service examines a number of factors besides technical ownership of the mail matter at the time of mailing. If ownership were the only criterion used, parties could circumvent the regulations by entering an agreement to transfer ownership of mail to the nonprofit organization before the mail is deposited. Accordingly, the Postal Service considers other factors such as risk of loss, division of profits, and management control. Other factors which may be included are the existence of an agreement, intent of the parties, contribution of each to the venture, and the presence of a community of interest in a common purpose.

2. Mr. DeConcini: In a recent Postal Inspection Service Report on cooperative mailings, it was stated that over a four-month period the Postal Inspection Service "identified 31 million pieces of mail from 150 nonprofit organizations which were unauthorized cooperative mailings." You identified deficiencies amounting to \$2,000,000; however, at the close of fiscal year 1989, only \$245,000 had been collected. The report further stated that the \$2 million represents the amount both subsidized by the Congress through the revenue foregone appropriation and the Postal Service for the institutional cost allocation for special rate mailings. Since only a small portion of the deficiencies have been collected, I'm not sure we could offset the revenue foregone appropriation by any sizeable amount, but it seems to me from an equity standpoint that as deficiencies are collected, they should be applied toward the reconciliation adjustment in the revenue foregone account, since you are recovering funds appropriated by the Congress which are found to be an unauthorized use of the mailer.

Do the funds recovered go into the Postal Service coffers or are they being reimbursed to the revenue foregone account? If not, why not?

Mr. Frank: As you noted, not all of the revenue recovered as a result of the Postal Inspection Service investigation represents funds from Congress. Part of the money represents the difference between the cost bases of the regular rate mail and the nonprofit mail. As of January of this year, \$782,982 of the revenue deficiencies identified has been collected. Of this, \$491,102 will be used to offset the Fiscal Year 1991 appropriations. In subsequent years, the appropriate amount of the deficiencies collected will be used to adjust future year revenue forgone appropriation requests through the reconciliation adjustment process.

3. Mr. DeConcini: To Mr. Clauson-The report compiled by the Inspection Service paints an abysmal picture of the Postal Service's ability to enforce the use of the nonprofit mailer. It states that under current regulations only the amount of the difference between the subsidized rate and the regular rate can be assessed because there is no requirement to assess interest, fines, penalties or revocation of the mailer's permit for violations. The report also states that even once a deficiency is assessed due to an unauthorized cooperative mailing, these amounts can go uncollected while the nonprofit organization continues to send third class bulk mail using the mailer because there are no regulations allowing the Postal Service to recover deficiencies from future payments. You make a number of recommendations in your report which, short of a change in the law on advertising, could make it easier to enforce the law and identify those nonprofit organizations who are abusing the preferred mailer privilege. The Postal Service's responses, however, are that either the recommendations are unworkable or wouldn't stand up legally. What are your views on the Postal Service's responses to your recommendations?

Mr. Clauson: We believe that the Postmaster General's February 1 letter to the Committee suggesting "eliminating completely nonprofit rate eligibility for mailings which solicit the purchase of products or services offered by a for-profit company or organization" is very responsive. As pointed out in our report, we do not believe that bulk mail acceptance employees are in a position to be able to determine if the mailing qualifies for the special rates. The Postmaster General's proposal eliminates this problem.

4. Mr. DeConcini: One of the Postal Inspection Service's recommendations, to make it easier for them to identify unauthorized mailings, is to establish a policy to require sample third-class mailings to be attached to a mailing statement certifying compliance with the law so that inspectors could periodically review the materials and make a determination without having to conduct investigations to identify the mail being sent. The Postal Service response dismisses this recommendation, stating the it would be cumbersome for field personnel to administer. While no one is looking for ways to make the job of your personnel more difficult, Mr. Postmaster, it seems to me that the Postal Service ought to be committed to a policy of eliminating abuses of a program it administers, particularly when it is a federally subsidized program. This is a complicated and difficult problem to wrestle with and I believe the Postal Service should be doing more than simply rejecting recommendations because it would result in additional responsibilities. Would you care to comment on your response to this recommendation, Postmaster Frank?

Mr. Frank: The Postal Service has not dismissed the idea. However, it should be understood that if implemented, the pieces would be kept for use in determining whether questionable mailings that were accepted into the mail at the special bulk rates were eligible for those rates. The Postal Service's response to the Inspection Service's draft audit report was intended to convey our dissatisfaction with after-the-fact enforcement systems as the means for ensuring that proper postage is collected on nonprofit rate mail. Any effective remedy to this problem must enable the Postal Service to identify ineligible materials before they are entered at the nonprofit rates.

5. Mr. DeConcini: Since the Postal Inspection report was released, what steps has the Postal Service taken to address weaknesses in the regulations, which do not require statutory changes?

Mr. Frank: On April 26, 1990, the Postal Service published a proposed rule in the Federal Register to strengthen its ability to collect unpaid postage deficiencies. Under this proposed rule, an unpaid postage deficiency could be set off against funds in a mailer's advance deposit accounts, and any subsequent payments to such an account by or on behalf of the mailer would be applied to the deficiency until it is paid in full. In addition, the Postal Service has begun several projects to increase mailer awareness of the cooperative mailing restrictions. These include the publication of two new customer handbooks, one concerning special bulk third-class mail and eligibility requirements, and one discussing cooperative mailing practices, as well as the revision of bulk third-class mailing statements to set forth specific warnings and penalties regarding prohibited practices.

6. Mr. DeConcini: When you have found a clear violation of the use of the permit, do you go to the commercial entity which cooperated with the nonprofit organization for restitution or do you go directly to the nonprofit organization?

Mr. Frank: The Postal Service generally looks first to the party authorized to mail at special bulk third-class rates to pay any deficiency assessed on matter mailed under its permit. In several recent cases, however, the Postal Service has been approached by counsel for the commercial firms involved in cooperative mailings requesting permission to file consolidated appeals on behalf of the commercial firm's nonprofit clients. These requests are being reviewed on a case-by-case basis with consideration given to the due process rights of all involved parties.

7. Mr. DeConcini: Under what circumstances can you go to a commercial entity for restitution?

Mr. Frank: When a revenue deficiency exists for a cooperative mailing or a mailing that did not qualify for the special bulk third-class rate, normally the Postal Service tries to collect from the authorized nonprofit organization, but the Postal Service does not foreclose the possibility of collecting from the for-profit organization under appropriate circumstances. If the for-profit organization's permit imprint is used to make the reduced rate cooperative mailing, the Postal Service can assess the for-profit organization. Also, if a for-profit organization establishes a nonprofit organization and uses the nonprofit organization's permit to mail matter that benefits the for-profit organization, the for-profit organization can be assessed. There may be other situations that would warrant requiring the for-profit organization to pay a revenue deficiency and that decision would depend on the circumstances surrounding the revenue deficiency.

8. Mr. DeConcini: In most cases where you have uncovered cooperative mailings, is it the commercial entity who is truly behind the venture and who is profiting from the relationship with the nonprofit organization?

Mr. Frank: The test for a cooperative mailing is whether the mailing was in behalf of or produced for an organization not authorized to mail at the special rates. In the vast majority of cases investigated by the Inspection Service which concern such services as travel, group life insurance, and affinity credit card programs, the real beneficiary of the mailings has been determined to be the commercial firm. Typically, the commercial firm bears most or all of the risk associated with the program, and also is the party which stands to gain the most if the program is a success.

9. Mr. DeConcini: In your view, would it be beneficial to have statutory authority which allows the Postal Service to hold the nonprofit organization and the commercial entity who designed and paid for the cooperative mailing responsible for any fines, back payments and interest owing to the Federal government?

Mr. Frank: The Postal Service would welcome the statutory authority to assess postage deficiencies against the commercial participants in cooperative mailing schemes. Typically, the commercial firm is the true party in interest in a cooperative mailing venture, and stands to reap the benefits or bear the losses of the enterprise. It would seem only fitting to hold the commercial firm liable for the payment of additional postage on mailings intended to further its own business. Unfortunately, however, the Postal Service currently is able to assess a postage deficiency only against a commercial firm which has established some direct link or nexus with the Postal Service, generally as either the permit holder or the mailing agent for an improper cooperative mailing. Because such instances are rare, the Postal Service generally assesses the deficiency against the nonprofit organization which used its permit to mail matter for the benefit of the commercial firm.

10. Mr. DeConcini: The Postal Inspection report states that although you assessed deficiencies of \$2 million for unauthorized cooperative mailings that this is only the tip of the iceberg. How large do you believe the problem is and what percent of the revenue forgone funds do you believe are being used for cooperative mailings or mailings which clearly benefit a commercial entity?

Mr. Frank: The 1986 Postal Rate Commission study of preferred rate mail indicated that approximately 6 percent of third-class nonprofit mail consisted predominantly of advertisements on behalf of products or services of for-profit entities. While the Commission's definition of the targeted behavior may not match exactly with the type of mailings with which the Postal Service is concerned, this estimate represents the best information available in the Postal Service's attempt to measure the prevalence of such matter in nonprofit mailings. However, it should be noted that the data is at least four years old. The Postal Service expects that cooperative mailings increased after the Commission's report, but that the Postal Service's renewed efforts at enforcement and education of mailers regarding the unacceptable cooperative mailings may have decreased this percentage in the most recent past.

If the six percent estimate is used, then approximately \$22 million of the Fiscal Year 1991 revenue forgone appropriation amount would be used to fund such mailings.

11. Mr. DeConcini: What percentage of your personnel and workload is devoted to investigations into the illegal use of the preferred rate mailer? Can you give us some idea of how much time and manpower you are devoting to this problem?

Mr. Frank: The Inspection Service does not isolate work-hours spent auditing the unauthorized use of the special rate permits. Their current work-hours reporting system is designed to identify hours to types of work, such as revenue protection. However, the system is flexible, and if a report of hours devoted to investigating nonprofit permits is needed, this adjustment could be accomplished for Fiscal Year 1991. The Inspection Service specifically tracked hours for its Cooperative Mailings Audit. Approximately 8,000 investigative hours were devoted to the audit in Fiscal Year 1989. As of February 28, 1990, the Inspection Service has spent an

additional 2,000 hours in Fiscal Year 1990 investigating such activity.

12. Mr. DeConcini: A new postal facility has just been completed in Lake Havasu City. Is there a reason why local mail cannot be postmarked in Lake Havasu City? Is this just a temporary measure, or does the Postal Service plan to return to local sorting and cancellation?

Mr. Frank: There are no plans to move this processing back to Lake Havasu. Approximately ten collection boxes have been requisitioned and will be placed throughout the city, in addition to a "local only" slot in the post office, for the deposit of mail for which customers desire a local postmark. The new collection boxes are expected to be delivered and installed in June.

13. Mr. DeConcini: What is the reason for the proposed 5-cent increase in the cost to deliver a First-Class letter?

Mr. Frank: The Postal Service is mandated by law to operate on a break-even basis over time. Consistent with its self-financed status, postal rates are designed to cover the estimated expenses of a "test year" which is almost three years into the future. A reasonable provision for contingencies is added to the estimated level of test year expenses principally to provide for unforeseen events.

The proposed 5-cent increase in the First-Class non-presorted letter rate, along with increases in other classes and subclasses of mail which average about 19 percent, is required to cover the Postal Service's projected costs.

Cost increases which will result in a deterioration of projected financial results unless additional revenue is provided from new rates include: (1) increased labor costs resulting from the negotiation of the 1990 labor contracts; (2) increased costs resulting from legislation requiring payments to the Civil Service Retirement Fund for annuitant cost of living allowances (COLAs) beginning in Fiscal Year 1990; (3) higher costs due to the increasing number of employees covered the Federal Employees' Retirement System; (4) increased costs resulting from legislation requiring the Postal Service to fund the costs of the health benefits for annuitants retiring after September 30, 1986, and their survivors; (5) a significant projected increase in inflationary pressure on our other costs; (6) significant increases in health benefit premiums; (7) significant increases in workers' compensation expense; (8) and significant increases in depreciation and interest expense.

In addition to these known influences on our costs, additional uncertainties also exist, including (1) an Administration proposal to move the current Civil Service Retirement System to dynamic funding, which would significantly increase Postal Service contributions; (2) an Administration proposal to require payment of the employer's share of health benefit costs for all postal annuitants who retired between July 1, 1971, and September 30, 1986; (3) an Administration proposal to require creation of a new set of subclasses for Government mail; (4) a proposed change in accounting standards that would require the Postal Service to recognize annuitant health benefits on an accrual basis; (5) a labor arbitration regarding the step increases granted to extended step employees which could result in a substantial increases in costs if an adverse decision is rendered; and (6) the potential that increases in inflation rates could be larger than projected.

14. Mr. DeConcini: Why isn't a smaller increase, say two or three cents, being considered?

Mr. Frank: As explained in the preceeding answer, postage rates are designed to cover the Postal Service's estimated costs. A smaller increase than the 19 percent average requested would be insufficient to cover our estimated costs.

Recognizing that continued postage increases of this magnitude are unacceptable, the Postal Service has established an objective of bringing cumulative inflation in postal costs below inflation in the general economy over the period Fiscal Year 1990-1995. The objective calls for restraining future rate increases enough to offset the amount by which the 1991 rate increase exceeds inflation. Accomplishment of this objective will result in either fewer or smaller future rate increases and financial stability for the Postal service

15. Mr. DeConcini: If this rate increase is granted, what impact will this have on your capital improvement program--will the Five-Year Plan for postal facilities plans be revised?

Mr. Frank: No. Our capital investment program is \$12.9 billion for the Five-Year Plan and we see no reason to change. The proposed postage rates reflect the expense costs for this level of investment.

16. Mr. DeConcini: Last year I asked the Service to provide me with a list of the Arizona postal facilities included in your Five-Year Plan. The list you provided to the Committee did not include an upgraded facility for Bullhead City, an area which is undergoing significant growth. It is my understanding that in 1985 you had a plan to construct a new postal facility on a new site in Bullhead City and that the Postal Service entered into an agreement with the Bureau of Land Management to occupy the land needed for the new facility. What is the status of this facility and why were plans to move forward on this project modified?

Mr. Frank: Prior to 1987, separate projects were planned for the communities of Bullhead City and Riviera, Arizona. In January 1987, the Phoenix Field Division General Manager/Postmaster elected to cancel the Bullhead project and proceed with one consolidated project to accommodate carriers for the combined delivery areas. Under the current plan, the existing Riviera Main Office will be retained as a retail finance facility. Most of the new growth is located in the Riviera area to the south, and one consolidated facility will be more economical for the Postal Service to construct and operate.

17. Mr. DeConcini: Does Bullhead City, in your view, merit a new facility and if so, what are your long-range plans to meet this community's postal needs? Why isn't the project included in your Five-Year Plan?

Mr. Frank: The consolidated Riviera-Bullhead City area is growing at an annual rate in excess of 3 percent. The present facilities are crowded and several additional carrier routes will be needed by the year 2003. To meet these requirements, a new consolidated facility is scheduled for design and construction in Fiscal Year 2001 on a site provided by the Bureau of Land Management. The Western Region planning staff will conduct a site visit to review this project and determine if it should be accelerated on the priority schedule.

For planning purposes, the consolidated main office project is referred to as the Riviera Main Office on the Western Region New

Construction-Owned Five-Year Facility Plan. However, because of its low priority compared with competing facility projects, this project is not scheduled until Fiscal Year 2001. It should be noted that a new postal facility has recently been constructed in Laughlin, Nevada, which is just across the Colorado River from Bullhead City. Many Bullhead City residents work at the casinos in Laughlin and should find it convenient to use the new facility there.

18. Mr. DeConcini: The city of Casa Grande, Arizona is slated to receive a new post office. Previous plans called for the construction of a new facility on a government-owned site. The land for the facility was purchased in 1989 and construction was supposed to begin at that time. Now, I am told, because of budgeting constraints, this facility will not be funded until fiscal years 93 and 94. Mr. Postmaster, this area is growing by leaps and bounds and I don't know how the Postal Service expects to provide quality service for another five years out of the existing post office there. Could you review the postal needs at Casa Grande, Arizona, and see if there is any way to shift funds to this project earlier than 1993 or 1994? Please keep the Committee advised of your findings and plans.

Mr. Frank: According to the most recent planning information available for this project, the Casa Grande community currently is growing at an annual rate in excess of 4 percent. The existing facility is space deficient and six additional delivery routes will need to be added by the year 2001. A site for the new Casa Grande Main Office has been acquired and the design phase was completed in 1989. Construction of the new facility is now scheduled for Fiscal Year 1993.

New facility projects are planned and assigned a priority based on a formal evaluation of existing space deficiencies and community growth rates. Site visits are conducted for every project before it is funded, and local postal authorities may request site reviews for projects which they believe deserve special attention. Since funding for new capital projects is limited, the Postal Service has found the priority ranking process to be a fair and equitable way to allocate limited capital resources.

Currently, five facility projects in the Phoenix Division area have higher priority scores than the Casa Grande Main Office. If the Casa Grande project were to be advanced, some other project in the Phoenix area or elsewhere in Arizona will have to be deferred.

QUESTIONS SUBMITTED BY SENATOR KERREY

1. Mr. Kerrey: I understand that three post offices in Nebraska--Maskell, Enders and Ellsworth--are being downgraded. Is that correct and what is the reason? What are the alternative services for these areas?

Mr. Frank: The Maskell Post Office is currently under initial investigation for discontinuance. It is an EAS-A level office providing two hours of daily service Monday through Saturday. The former postmaster was promoted to a higher level postmaster position at another facility. There has been a steady decline in workload at the Maskell office. A recent survey indicated an average of only two transactions daily. Revenue for Fiscal Year 1989 was \$2,213.65. There are 24 customers: 22 post office box and two general delivery. The proposal is to add the 24 customers to an existing rural route which originates in

Newcastle and goes through the Maskell community. No route extension will be necessary.

The Postal Service is currently proposing to consolidate the Ellsworth Post Office and establish a contractor operated community post office (CPO). The postmaster retired and evicted postal operations from privately owned quarters. The Postal Service set up temporary quarters in the community until the discontinuance process is completed and a local CPO contractor is selected.

A new Enders postmaster was appointed last year. There are no plans to change the status of this post office.

2. Mr. Kerrey: Are there plans for closing or downgrading other facilities in the State?

Mr. Frank: When a postmaster position becomes vacant, it is customary to evaluate office workload to determine the appropriate office level and whether operational changes need to be made to more efficiently meet customer service needs. Factors evaluated are possible deliveries, boxes rented, revenue, and current area growth trends and projections. When the evaluation shows consistently declining office work-load, the office level is appropriately lowered according to workload service credit standards (WSCs). The Omaha Division is currently reviewing the status of 11 Nebraska post offices. No decisions with respect to closing or downgrading these office will be made until those reviews are completed.

3. Mr. Kerrey: Last year there was a restructuring in the State which led to the transfer of some functions from Lincoln to other areas. Were all those displaced as a result of the restructuring accommodated? How many persons actually lost jobs or were forced to take lesser positions? Are any similar changes proposed for the future?

Mr. Frank: A total of 36 employees were affected by this change. No employees were fired. As of mid-April 1990, three employees are not placed, three employees took lesser jobs, two employees retired, and 28 employees took equal or better jobs. There are no similar changes proposed for the future.

4. Mr. Kerrey: What is your fiscal 1991 construction program for the State of Nebraska?

Mr. Frank: There are two new construction-owned projects planned for award in Fiscal Year 1991:

1. Northwest Station, Omaha, scheduled for award on May 28, 1990, and,
2. Station "B", Lincoln, scheduled for construction award on September 15, 1990.

5. Mr. Kerrey: What is your backlog of projects in the State?

Mr. Frank: Four backlog projects have been identified:

South Sioux City, Nebraska
Columbus, Nebraska Main Post Office
Alliance, Nebraska Main Post Office, and
A. D. Jones Station, Omaha, Nebraska

6. Mr. Kerrey: I understand that you have at least one large contract in the State. What activities do you contract out in Nebraska and to whom?

Mr. Frank: Currently, there are two large contracts in the state, both are being done by the Lueder Construction Company of Omaha, Nebraska. One is the construction of the air mail facility in Omaha at a cost of \$3,000,000. Completion is estimated to be in October 1990. The other is the Boystown Main Office in Omaha, a renovation to an existing building for over \$1,000,000. Completion is scheduled for later this year.

Several large repair and alteration projects are underway or scheduled to be awarded in the near future:

- Omaha Main Post Office - Roof Replacement
- Lincoln Main Post Office - Roof Replacement
- Omaha Main Post Office - Workroom Floor Renovation

In addition, there are two term contracts (architectural/engineering firms) for small projects within the state. The two firms are Johnson, Erickson & O'Brien of Omaha, and Schemmers & Associates of Wahoo.

Facilities type activities that are routinely contracted out include site development, building and fixed mechanization, design, engineering, on-site paving, landscaping, building construction, and construction supervision.

7. Mr. Kerrey: I noted recently the large number of health benefit plans available to federal employees. Is there a similar proliferation of programs in the Postal Service? If so, do you view this as a positive or a negative situation?

Mr. Frank: Postal employees are currently covered by the Federal Employees Health Benefits Program, the same program available to Federal employees. The large number of plans not only confuses employees attempting to select a plan which best suits their needs, but also leads to increased Government contracting costs.

QUESTIONS SUBMITTED BY SENATOR BYRD

1. Mr. Byrd: As I have previously indicated, I am seriously concerned that the United States Postal Service continue to maintain small rural post offices and six-day postal delivery service. In the past, the Postmaster General has indicated to the Senate Appropriations Committee his willingness to participate in economies--but pledged not to close small rural post offices or eliminate six-day mail delivery service in the process. Because these postal service matters are so important to rural states, I have again this year urged that the Subcommittee include an amendment in the bill which would prohibit the use of appropriated funds to close small post offices or discontinue six-day mail delivery service. Mr. Frank, as Postmaster General, again, let me ask you for the record, what are your views on maintaining the extensive delivery network that makes the Postal Service unique, and do they differ from those of your predecessor?

Mr. Frank: My views on maintaining the extensive delivery network that makes the Postal Service unique are consistent with those of my predecessors. The Postal Service remains committed to the preservation of its universal postal delivery network and continues to view each individual post office as an integral component of this system. The revenues taken in by a particular post office--the measure used by many to judge the worth of that

office--are not an accurate indicator of the value of that office to the postal delivery system.

2. Mr. Byrd: Again, let me ask you for the record, what are your views on the Grace Commission regarding the closing of thousands of small post offices?

Mr. Frank: I do not support the recommendation of the Grace Commission. Economically, it may make sense to discontinue a number of small, unprofitable post offices. However, the Postal Reorganization Act clearly states: "No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be ensured to residents of both urban and rural communities." I am committed to providing a delivery network that "...shall have as its basic function the obligation to provide postal services to bind the Nation together..."

From time to time, a post office will be closed for operational concerns when an equivalent or improved level of service can be provided by alternate means to customers served by that office. This is accomplished on a case-by-case basis. The Postal Service has no plans to engage in wholesale closing of small post offices.

3. Mr. Byrd: I understand that the Postal Service, based on clarifying remarks in the Congressional Record, has instituted certain safeguards and procedures in these instances where the Postal Service believes that a post office must be closed. Would you elaborate for the record on the safeguards the Postal Service uses in these selected cases?

Mr. Frank: In accordance with the requirements of 39 U.S.C. 404 (b), and its official policy regarding the implementation of that statute, the Postal Service evaluates each proposal to close or consolidate a post office on an individual basis. Postal regulations set forth at Domestic Mail Manual (DMM) 113.2 require field personnel to document each such proposal by preparing a detailed administrative record which evaluates the proposal with regard to its responsiveness to community postal needs, effect on the local community, effect on postal employees, economic savings, and other important factors. The proposal must be posted for public comment, and the views of customers included in the record. Following further review of the proposal in light of additional information and views received from the public, the Field Division General Manager may decide that the action is warranted, and forward the proposal to Headquarters for additional review. If, and only if, the Senior Assistant Postmaster General, Operations Support Group, agrees with the General Manager's proposal, will the Postal Service post its final determination to close or consolidate a post office.

4. Mr. Byrd: Based on my own office records, the number of operating post offices in West Virginia has decreased from 1,000 in 1982 to 905 currently in operation, an almost 10 percent cut. How does this figure comport with pledges you have made to me in the past and again this fiscal year, (as evidenced in your letter to me of December 29, 1989) of not engaging in wholesale closing of small post offices? Please list for the record, the post offices which, during the past decade ceased to be in an operational status, the dates when the post offices ceased operations, and a detailed reason for the cessation of operations and the degree to which the Postal Service complied with the safeguards which the Postal Service has indicated it would adhere to in the selected cases where it believes a post office should be closed.

Mr. Frank: Attachment C identifies 112 West Virginia post offices which were closed or consolidated during the last decade (1980 - 1990), the dates of action, and the reason for the action taken. These closings and consolidations were conducted in accordance with the statutory requirements and postal regulations discussed in the response to the preceding question. As noted in the reasons for discontinuance, the actions taken were the result of individual circumstances and not part of an overall plan to close a large number of post offices within a set time frame, without regard to the service needs of the community. It should also be noted that the statute covering the closing of post offices provides for a 30-day posting of a final determination during which local postal customers may appeal the final decision to the independent Postal Rate Commission, which has 120 days to review the Postal Service decision and render a final opinion. Of the 112 offices listed, only five appeals were initiated.

ATTACHMENT C

WEST VA POST OFFICES DISCONTINUED DURING THIS DECADE YTD

CAL. YEAR	NUMBER	CLOSED/CONSOLIDATED	
1980	8	8	
1981	1	1	
1982	4	4	
1983	8	8	
1984	14	14	
1985	14	14	
1986	12	11	1
1987	16	16	
1988	21	20	1
1989	14	13	1
1990	0	0	0 (May 1990)
<u>TOTALS</u>	<u>112</u>	<u>109</u>	<u>3</u>

WEST VIRGINIA POST OFFICE CLOSINGS

CALENDAR YEAR 1980 THROUGH 1990 YEAR-TO-DATE

<u>OFFICE</u>	<u>DATE OF SUSPENSION</u>	<u>OFFICE OF ACCOUNTABILITY</u>	<u>REASON FOR DISCONTINUANCE</u>	<u>EFFECTIVE CLOSING DATE</u>	<u>CLOSED/CONSOLIDATED</u>
<u>1980</u>					
ALEXANDER WV 26211	No suspension	French Creek WV 26218 12.9 miles away	Declining needs and Postmaster retirement.	08/08/80	CLOSED
HIGHLAND WV 26371	No suspension	Ellenboro WV 26346 3 miles away.	Postmaster retirement.	04/18/80	CLOSED
JORDON WV 26577	08/13/76	Fairmont WV 26554 7.5 miles away.	Postmaster retired. Declining needs.	04/18/80	CLOSED
LANGES STATION 26832	07/03/80	Petersburg WV 26847 9 miles away.	Contractor gave up contract.	07/03/80	CLOSED
MANHEIM WV 26403	No suspension	Rowlesburg WV 26425 2 miles away.	Declining needs of community.	07/11/80	CLOSED
MCALPIN WV 25869	10/28/77	Sophia WV 25921	Building inadequate.	02/22/80	CLOSED
SHIVELY WV 25561	08/11/78	Chapmanville WV 25508 9.9 miles away.	Postmaster vacancy. Evicted by lessor.	02/22/80	CLOSED
WILLOW BEND WV 24992	02/22/80	Union WV 24983 5.0 miles away.	Postmaster vacancy. No general delivery or box customers.	02/22/80	CLOSED

1981

 KESSLER WV 25970 01/09/81 Rupert WV 25984 Building burned, no quarters available. 01/09/81 CLOSED

1982

 BALDWIN WV 26326 06/05/81 Glenville WV 26351 Eviction. 12/16/82 CLOSED
 6 miles away.

KAYFORD WV 25131 04/16/82 Leewood WV 25122 Community Coal Mine closed down and kicked community out. 04/16/82 CLOSED

LITTLE FALLS WV 26505 06/30/80 Morgantown WV 26505 Postmaster retired. Termination of lease. 10/01/82 CLOSED
 10 miles away.

WENDEL WV 26450 10/04/80 Flemington WV 26347 Safety reasons. 10/06/82 CLOSED
 2 miles away.

1983

 CASCADE WV 26542 12/11/81 Masontown WV 26542 Postmaster retired. Termination of Lease. 09/02/83 CLOSED
 1.2 miles away.

CLEM WV 26614 04/15/83 Glendon WV 26626 Postmaster retired and evicted the Postal Service. 04/15/83 CLOSED

GAULEY MILLS WV 26240 10/03/81 Camden-On-Gauley WV 26209 Postmaster promoted. Declining needs. 09/02/83 CLOSED
 .9 miles away.

PIE WV	25689	05/08/81	Delbarton WV 25670 13 miles away.	Postmaster vacancy. Evicted by lessor.	05/13/83	CLOSED
RIG WV	26854	03/19/82	Moorefield WV 26836 4 miles away.	Postmaster retirement. Evicted.	12/23/83	CLOSED
SALTPETRE WV	25558	07/10/80	Fort Gay WV 25514 Rural route delivery. 3.5 miles away.	Postmaster vacancy. Only two general delivery customers. One relocated, and one died.	05/13/83	CLOSED
WILDCAT WV	26460	01/13/81	Ireland WV 26376 5.1 miles away.	Safety reasons.	02/18/83	CLOSED
WINDING GULF WV	25941	01/06/81	Princeton WV 25908	Postmaster retired. Inadequate facility. Unsafe building conditions.	04/15/83	CLOSED
<u>1984</u>						
BLACKBERRY CITY WV	25664	03/13/80	Hateman WV 25678 1.1 mile away.	Building destroyed by fire.	03/16/84	CLOSED
CENTRAL STATION	26340	09/20/82	West Union WV 26456 5 miles away.	Termination of lease. Safety reasons.	09/17/84	CLOSED
CHERRY RUN WV	25427	08/13/82	Hedgesville WV 25427 8 miles away.	Postmaster retired. Termination of Lease.	11/24/84	CLOSED
CLIFFTOP WV	25822	03/18/83	Danese WV 25831	Lessor evicted Postal Service. No other quarters available.	10/01/84	CLOSED
CUNARD WV	25830	06/18/83	Fayetteville WV 25840 9.9 miles away.	Evicted.	11/09/84	CLOSED
EAST GULF WV	25835	12/31/82	Rhodes WV 25915 2 miles away.	Postal Service evicted. Building torn down.	10/01/84	CLOSED

FLOWER WV	26522	04/01/83	Cedarville WV 26611 2.7 miles away.	Postmaster deceased. Postal Service evicted.	06/06/84	CLOSED
FRANK WV	24937	07/21/82	Bartow WV 24920 1.4 miles away.	Evicted by lessor.	03/16/84	CLOSED
HASTINGS WV	26365	02/12/82	Pine Grove WV 26419 .9 miles away.	Postmaster retired. Termination of lease.	10/07/84	CLOSED
HEROLD WV	26628	04/23/82	Sutton WV 26601	Inadequate facility.	11/24/84	CLOSED
LEHEW WV	26808	08/06/82	Yellow Springs WV 26865 3.5 miles away.	Eviction.	07/29/84	CLOSED
MINNORA WV	25263	01/28/83	Orma WV 25268 Chloe WV 25235 1.7 miles away.	Postmaster resigned and evicted Postal Service.	07/27/84	CLOSED
PIGEON WV	25155	07/30/81	Amma WV 25005	Postmaster resigned and evicted Postal Service.	05/03/84	CLOSED
ULER WV	25282	08/31/82	Newton WV 25266	Building inadequate. Termination of lease.	01/20/84	CLOSED
<u>1985</u>						
AMBOY WV	26704	08/01/84	Auora WV 26705 3 miles away.	Depredation of postmaster and dual delivery.	07/19/85	CLOSED
BURNING SPRINGS WV	26139	04/13/85	Creston WV 26141 6 miles away.	Eviction.	04/13/85	CLOSED
CORNSTALK WV	24930	12/05/80	Lewisburg WV 24901 HCR Delivery	Resignation of Postmaster. Non-renewal of lease by lessor.	02/16/85	CLOSED
CROWN WV	25616	04/08/79	Accoville WV 25606 .06 miles away.	Building destroyed by fire.	04/12/85	CLOSED

HOPEMONT WV	26723	07/23/82	Terra Alta WV 26764 1.8 miles away.	Only serviced patients and employees of of the Hopemont State Hospital	04/13/85	CLOSED
JERE WV	26536	01/20/83	Pursglove WV 26546 One mile away.	Termination of lease.	11/15/85	CLOSED
JOB WV	26274	02/03/84	Whitner WV 26296 4.6 miles away.	Postmaster promotion. Needs of community.	05/30/85	CLOSED
KASSON WV	26380	06/11/82	Moatsville WV 26401 3.8 miles away.	Postmaster retirement. Termination of lease.	04/13/85	CLOSED
MAHONE WV	26402	No suspension	Harrisville WV 26362 3.2 miles away.	Postmaster deceased. Termination of lease.	05/28/85	CLOSED
NEW ENGLAND WV	26154	05/15/82	Washington WV 26181 6.1 miles away.	Eviction.	03/22/85	CLOSED
NOBE WV	26150	No suspension	Big Springs WV 26137 4 miles away.	Postmaster promoted. Lease terminated.	04/13/85	CLOSED
PATTERSON CREEK WV	26746	10/01/82	Ridgeley WV 26753 9 miles away.	Postmaster retirement. Evicted.	04/13/85	CLOSED
TOLL GATE WV	26442	03/31/83	Pennsboro WV 26415 3 miles away.	Postmaster retired. Declining community needs.	03/22/85	CLOSED
WILLIAMS MOUNTAIN WV	25212	Unknown	Prenter WV 25163	Postmaster retired. Inadequate facility	07/31/85	CLOSED

1986

ARBuckle WV	25006	10/14/83	Leon WV 25123 2 miles away.	Building severe safety hazard - falling in river.	02/18/86	CLOSED
BURNT HOUSE WV	26336	05/23/86	Smithville WV 26178 7.5 miles away.	Eviction.	05/23/86	CLOSED
DORCAS WV	26835	08/01/84	Petersburg WV 26847 4.5 miles away.	Eviction.	08/15/86	CLOSED
DUHRING WV	24722	04/15/83	Rock WV 24747 4.1 miles away.	Building condemned/demolition planned.	10/31/86	CLOSED
ELGOOD WV	24723	10/01/82	Princeton WV 24740 Rural Delivery 12 miles away.	Postmaster vacancy/non-renewal of lease by lessor.	10/31/86	CLOSED
GILLIAM WV	24837	10/01/82	Worth WV 24897 1.9 miles away.	Postmaster vacancy/evicted by lessor.	11/30/86	CLOSED
HEBRON WV	26368	05/07/84	Ellenboro WV 26346 9 miles away.	Safety hazards.	08/01/86	CLOSED
LAWTON WV	25863	05/13/83	Layland WV 25864 3 miles away.	Building safety hazard. Roof and floors caved in and rodent infested.	01/13/86	CLOSED
LEVELS WV	25431	10/16/81	Paw Paw WV 25434 4.9 miles away.	Postmaster resigned. Termination of lease. CPO Established	05/22/86	CONSOLIDATED
LONGACRE WV	25127	Unknown	Smithers WV 25186	Building security hazard. Inadequate facility.	02/18/86	CLOSED
NEVILLE WV	26632	Unknown	Sutton WV 26601	Building inadequate. No restroom facility. Safety/security reasons.	02/18/86	CLOSED
ROMANCE WV	25175	03/30/84	Kenna WV 25248 .7 miles away.	Postmaster retired. Building inadequate.	02/18/86	CLOSED

1987

ANNAMORIAH WV	26130	06/10/86	Creston WV 26141 3 miles away.	Eviction.	10/03/87	CLOSED
BARNABUS WV	25609	03/30/83	Omar WV 25638 Rural delivery. .9 miles away.	Evicted by lessor.	03/01/87	CLOSED
CHERRY GROVE WV	26803	05/17/85	Circleville WV 26804 2.9 miles away.	Postmaster resignation. Building safety hazard.	10/03/87	CLOSED
DOTT WV	24721	10/14/83	Mataoka WV 24736 Rural delivery. 4.8 miles away.	Resignation of postmaster. Evicted by lessor.	01/10/87	CLOSED
DRÖOP WV	24933	05/01/84	Hillsboro WV 24946 HCR delivery. 6.9 miles away.	Postmaster vacancy. Non-renewal of lease by lessor.	01/10/87	CLOSED
GUARDIAN WV	26261	09/27/85	Diana WV 26217 6.2 miles away.	Postmaster retirement.	10/03/87	CLOSED
MINNEHAHA SPRINGS WV	24960	10/29/82	Marlinton WV 24954 HCR Delivery 10 miles away.	Postmaster vacancy. Evicted by lessor.	01/10/87	CLOSED
MORRISVALE WV	25542	03/02/84	Spurlockville WV 25565 HCR delivery. 12.7 miles away.	Postmaster vacancy. Non-renewal of lease due to poor condition of building.	01/10/87	CLOSED
PICKAWAY WV	24965	11/16/84	Sinks Grove WV 24976 Rural delivery. 3.7 miles away.	Postmaster vacancy/evicted by lessor.	03/01/87	CLOSED

RADNOR WV	25556	05/11/84	Genoa WV 25517 HCR delivery 4.8 miles away.	Postmaster vacancy. Evicted by lessor.	02/28/87	CLOSED
SEEBERT WV	24975	09/28/84	Hillsboro WV 24946 HCR delivery. 3.0 miles away.	Postmaster vacancy. Evicted by lessor.	02/28/87	CLOSED
STONY BOTTOM WV	24979	08/17/84	Cass WV 24927 5.2 miles away.	Postmaster vacancy/evicted by lessor. Highway Contract Route delivery provided.	11/09/87	CLOSED
TESLA WV	26640	05/03/85	Little Birch WV 26629 1.3 miles away.	Postmaster retired. Lease terminated by postmaster.	11/14/87	CLOSED
UNGER WV	25447	06/29/85	Berkeley Springs WV 25411 10.5 miles away.	Postmaster retirement. Termination of lease.	10/03/87	CLOSED
VALLSCREEK WV	24890	03/29/85	Canebrake WV 24819 Rural delivery. 1.8 miles away.	Postmaster vacancy. Non-renewal of lease of lessor.	03/10/87	CLOSED
WILBUR WV	26549	No suspension	Alma WV 26320 5.3 miles away.	Not suitable for continued operations. No available quarters.	05/13/87	CLOSED
ALBRIGHT WV	26519	11/05/85	Kingwood WV 26527 4 miles away	Destroyed by Flood. CPO established.	07/16/88	CONSOLIDATED
ALGOMA WV	24807	05/10/85	Northfork WV 24868 HCR delivery. .9 miles away.	Postmaster vacancy. Health, safety, security factors.	03/19/88	CLOSED

1988

ASCO WV	24809	05/03/86	Davy WV 24828 HCR delivery. 1.9 miles away.	Postmaster vacancy. Non-renewal of lease due to poor condition of building.	07/09/88	CLOSED
CARBON WV	25037	05/30/86	Leewood WV 25122 5 miles away.	Postal Service evicted from building by owner.	12/17/88	CLOSED
CORTON WV	25050	04/30/86	Clendenin WV 25045 8 miles away	Postmaster retired. Postal Service evicted from premises. No suitable alternate quarters available.	04/16/88	CLOSED
COVE GAP WV	25509	02/29/84	Ranger WV 25557 HCR delivery. 7.7 miles away.	Postmaster vacancy. Cancellation of lease due to poor condition of building.		CLOSED
DAMSON WV	24932	04/01/85	Alderson WV 24910 Rural delivery. 20 miles away.	Postmaster vacancy. Evicted by lessor.	12/31/88	CLOSED
DEHUE WV	25618	12/01/85	Yolyn WV 25654 HCR delivery. 3.7 miles away.	Postmaster vacancy. Evicted by lessor.	10/01/88	CLOSED
HANCOCK WV	25424	11/05/85	Berkeley Springs WV 25411	Damaged by flood.	07/16/88	CLOSED
HARVEY WV	25852	12/14/84	Redstar WV 25914 1.1 miles away	Postmaster resigned. Building owner cut off water and building deteriorated.	02/23/88	CLOSED
LANDVILLE WV	25629	04/12/86	Man WV 25635 HCR delivery. 2.7 miles away.	Postmaster vacancy. Cancellation of lease.	07/16/88	CLOSED
MARFRANCE WV	25972	04/30/85	Quinwood WV 25981 1.3 miles away.	Postmaster vacancy. Postal Service evicted from building. No alternate quarters available.	02/23/88	CLOSED

MCOWELL WV	24858	06/25/85	Ashland WV 24810 HCR delivery. 2.0 miles away.	Postmaster vacancy. Non-renewal of lease by lessor.	06/04/88	CLOSED
MINGO WV	26281	03/28/86	Valley Head WV 26294 4 miles away.	Safety reasons.	07/16/88	CLOSED
PARCOAL WV	26265	07/31/87	Webster Springs WV 26288. 3 miles away.	Postmaster retirement. Eviction.	11/26/88	CLOSED
ROBINETTE WV	25642	11/02/84	Amherstdale WV 25607 HCR delivery. 1.2 miles away.	Postmaster vacancy. Building damaged by fire.	11/19/88	CLOSED
STREETER WV	25969	09/30/86	Jumping Branch WV 25969 3.8 miles away.	Postmaster retired and evicted the Postal Service from leased building.	01/02/88	CLOSED
TAMS WV	25933	05/31/85	None	Postmaster retired. Coal company terminated lease and requested the Postal Service vacate premises. Replacement service not required because company and residents moved to other communities.	02/27/88	CLOSED
WHITBY WV	25939	09/05/86	Coal City WV 25823 3 miles away.	Safety/security reasons. Nonavailability of suitable quarters.	04/26/88	CLOSED
WHITTAKER WV	25210	11/21/86	Gallagher WV 25083 8 miles away.	Building burned. Severe safety hazards. Postmaster promoted.	12/17/88	CLOSED
WILSON WV	26768	04/21/85	Bayard WV 26707 2.3 miles away.	Postmaster deceased. Evicted.	07/16/88	CLOSED
1989						
MEAD WV	25877	05/20/88	Rhodes WV 25915 4.2 miles away.	Postmaster retired. Postal Service evicted from building. No alternate quarters available.	06/10/89	CLOSED

REPLETE WV	26233	06/30/86	Hacker Valley WV 26222	Eviction.	01/21/89	CLOSED
			9.6 miles away.			
RUSSELLVILLE WV	26689	10/30/87	Nallen WV 26680	Postmaster vacancy. Postal Service evicted from building. No alternate quarters available.	07/01/89	CLOSED
			2.4 miles away.			
CORLEY WV	26616	01/04/86	Flatwoods WV 26621	Facility burned. No alternate quarters available.	07/01/89	CLOSED
			3.7 miles away.			
CRAWFORD WV	26343	No suspension	Walkersville-Crawford	New facility for both communities.	01/21/89	CONSOLIDATED
			One mile away.			
CURTIN WV	26204	12/02/88	Webster Springs WV	Postmaster promotion. No available Officer-In-Charge	03/02/89	CLOSED
			4.3 miles away.			
DUNCAN WV	25240	12/31/87	Le Roy WV 25252	Postmaster retired. Safety conditions. Absence of lease for facility.	07/01/89	CLOSED
			1.9 miles away.			
EARLING WV	25619	02/07/86	Lyburn WV 25632	Postmaster vacancy. Evicted by lessor.	07/01/89	CLOSED
			HCR delivery.			
FERRELLSBURG WV	25513	05/21/86	Harts WV 25524	Postmaster vacancy. Evicted by lessor.	07/01/89	CLOSED
			HCR delivery.			
			1.4 miles away.			
GARRISON WV	25084	12/28/87	Whitesville WV 25209	Depredation of postmaster. Lack of qualified personnel.	03/30/89	CLOSED
			2.5 miles away.			
INDIAN MILLS WV	24949	12/19/86	Forest Hill WV 24935	Postmaster vacancy. Non-renewal of lease due to size of office - 86 square feet.	11/04/89	CLOSED
			HCR delivery.			
			4.0 miles away.			
LIVERPOOL WV	25257	10/02/87	Le Roy WV 25252	Postmaster retired. Leave replacement retired. Building safety hazard - rodent infested. Lack of qualified personnel.	05/30/89	CLOSED
			One mile away.			

LOBATA WV	25677	01/17/85	Matewan WV 25678 HCR delivery. 3.0 miles away.	Postmaster vacancy. Cancellation of lease during United Mine Workers Association strike. Employee's safety at stake.	07/01/89	CLOSED
KYMER WV	26297	08/31/88	Bowden WV 26254 6 miles away.	Postmaster retired. Eviction.	10/31/89	CLOSED

5. Mr. Byrd: What are the latest estimates for funding of proposed Postal Service construction projects in West Virginia, such as the proposed Clarksburg and Charleston postal facilities and what is their status?

Mr. Frank: The construction of the Clarksburg facility is 35 percent complete. The facility is under roof, floor slabs have been poured and interior partitions have been installed. The next stage of construction will incorporate the installation of heating, air conditioning, electrical and mechanical systems. Despite unfavorable Spring weather conditions, the Postal Service anticipates occupancy by January 1991.

Construction for the Vehicle Maintenance Facility is trailing the General Mail Facility by about one month. This time lag between facilities was preplanned, and despite poor weather conditions, has been maintained. Total funding approved for the Clarksburg project is \$17.8 million, of which \$14.9 million has been committed.

Planning for a Postal Service facility in Charleston, West Virginia is continuing. A readvertisement for sites resulted in new sites being offered. The Postal Service is reviewing these to determine their potential for an Annex or General Mail Facility. The determination of an acceptable site will lead to presentation of the project to the Capital Investment Committee in September 1990, and subsequently to the Board of Governors.

6. Mr. Byrd: Please update for the record, as you have in previous years, a list of proposed owned and leased facilities to be constructed in West Virginia in the foreseeable future; a short description of each proposed construction project (including need, dimensions, and the additional number of employees, if appropriate, cost of construction); and a schedule, including significant milestone events, leading to the planning, design, construction, and occupancy of each project.

Mr. Frank: The information follows.

CHARLESTON DIVISION

LEASEBACK CONSTRUCTION FY 90 - 95

POST OFFICE	FI UNIT	PROJECT	PROJECT	INTERIOR	NEEDS	ADD'L EMPLOYEES	CONSTRUCTION
		ZIP	START	COMPLETE	SQ FT		COST
BECKWITH	WV MPO	25814	05/87	10/90	928	1	NONE
BICKMORE	WV MPO	25019	08/89	06/91	928	3	NONE
BOMONT	WV MPO	25030	06/89	07/91	616	2	NONE
BOWDEN	WV MPO	26654	02/90	06/91	928	2	NONE
BRANCHLAND	WV MPO	25506	07/89	11/90	2002	1&2	NONE
CAMBUS	WV MPO	26662	12/89	03/91	1168	1&2	NONE
CANEBAKE	WV MPO	24819	03/83	01/91	928	1&2	NONE
CEDAR BLUFF	VA MPO	24609	11/89	08/91	4704	1&2	NONE
CHARLESTON	WV STONEWALL STA	25302	10/89	04/91	16298	1&2	NONE
COOL RIDGE	WV MPO	25825	08/87	06/91	1330	1&2	NONE
CORE	WV MPO	26329	02/89	11/91	928	1	NONE
CRAB ORCHARD	VA MPO	25827	07/89	03/91	3300	1	NONE
DANIELS	WV MPO	25832	09/89	07/91	1682	1&2	NONE
DANVILLE	WV MPO	25053	12/87	07/91	3610	1	NONE
FALLING WATER	WV MPO	25419	11/89	09/91	4704	1	NONE
FANROCK	WV MPO	24834	03/87	11/90	928	1	NONE
FOLSOM	WV MPO	26348	11/89	10/91	928	1	NONE
FOSTER	WV MPO	25081	12/89	04/91	1168	1&2	NONE
FRANKLIN	WV MPO	26807	08/90	08/92	4701	4	NONE
GAP MILLS	WV MPO	24941	12/90	10/92	1408	1&2	NONE
HARPER	WV MPO	25851	07/87	09/90	616	2	NONE
HEMPHILL	WV MPO	24842	01/88	05/91	928	1&2	NONE
HORNER	WV MPO	26372	02/89	11/91	928	2	NONE
INDORE	WV MPO	25111	10/88	10/91	928	1&2	NONE

JOLO	WV MPO	24850	11/84	12/90	928	2	NONE	N/A
LEFT HAND	WV MPO	25251	12/90	10/92	928	1&2	NONE	N/A
LORADO	WV MPO	25630	02/87	01/91	928	2	NONE	N/A
MAVISDALE	VA MPO	24627	08/89	04/91	928	2	NONE	N/A
MAXI	VA MPO	24628	09/89	06/91	1168	3	NONE	N/A
MAXWELLTON	WV MPO	24957	04/87	09/90	928	1&2	NONE	N/A
MIAMI	WV MPO	25134	02/90	08/91	1168	3	NONE	N/A
NAOMI	WV MPO	25140	12/89	04/91	1168	1&2	NONE	N/A
NEW CREEK	WV MPO	26743	06/90	06/92	1168	1	NONE	N/A
PAGETON	WV MPO	24871	03/87	04/91	928	1	NONE	N/A
PANTHER	WV MPO	24872	02/87	10/91	928	1	NONE	N/A
PENTRESS	WV MPO	26544	02/89	11/91	928	1	NONE	N/A
PREMIER	WV MPO	24878	02/87	08/91	928	1	NONE	N/A
PURGITSVILLE	WV MPO	26852	10/84	09/90	616	2&4	NONE	N/A
RALEIGH	WV MPO	25911	08/87	08/90	928	1&2	NONE	N/A
RANGER	WV MPO	25557	01/88	10/90	1168	1&2	NONE	N/A
ROCK	WV MPO	24747	01/87	07/90	1168	1&2	NONE	N/A
SARAH ANN	WV MPO	25644	04/87	10/90	928	1&2	NONE	N/A
SHANKS	WV MPO	26761	06/90	06/92	616	1&2	NONE	N/A
SOPHIA	WV MPO	25921	07/89	06/91	3610	1&2	NONE	N/A
STOLLINGS	WV MPO	25646	01/90	10/91	2500	1&2	NONE	N/A
SWEET SPRINGS	WV MPO	24980	03/87	12/91	928	2	NONE	N/A
THACKER	WV MPO	25695	01/91	08/92	928	2	NONE	N/A
VAN	WV MPO	25206	12/89	04/91	1168	1&2	NONE	N/A
WADESTOWN	WV MPO	26564	02/89	11/91	928	1	NONE	N/A
WINFIELD	WV MPO	25213	08/88	05/90	4227	1&2	NONE	N/A
WORTH	WV MPO	24897	08/88	08/91	616	1&2	NONE	N/A
BARBOURSVILLE	WV MPO	25504	09/89	09/93	9800	1	NONE	1090
BELLE	WV MPO	25015	10/87	02/91	3518	5	NONE	157
BOSSIVAIN	WV MPO	24606	05/87	04/90	928	1&2	NONE	125
CHARLESTON	WV KANAWHA	25304	10/89	01/93	15000	1	NONE	1240
CHARLESTON	WV MAIL PROCESS ANN	25301	10/86	09/91	179000	1	10	40300
CHARLESTON	WV VMF	25301	12/89	05/90	5100	4	NONE	500
CHARLESTOWN	WV MPO	25414	06/93	03/97	11000	1	NONE	1100
CLARKSBURG	WV GME & VMF	26301	10/86	09/89	142845	1	3	17764
COWEN	WV MPO	26206	01/86	10/91	2960	1	NONE	318
FREEMAN	WV MPO	24734	12/87	10/93	768	5	NONE	77
HUNTINGTON	WV EAST SIDE STA	25704	01/90	10/92	19000	3	NONE	1900
HURRICANE	WV MPO	25526	07/89	12/95	9800	1	NONE	980
LEWISBURG	WV MPO (EXPANSION)	24901	06/78	09/90	8200	1	NONE	1500
MEADOW BRIDGE	WV MPO	25976	08/87	09/90	1682	1	NONE	225
POINT PLEASANT	WV MPO	25550	05/89	03/93	10259	1&2	NONE	1000
PRINCETON	WV MPO	24740	05/90	12/95	1900	1	NONE	200
READER	WV MPO	26167	02/90	11/93	864	5	NONE	50
ROSEMONT	WV MPO	26424	02/87	10/90	1056	2	NONE	130
RICHLAND	VA MPO	24641	12/93	01/96	8500	1	NONE	900
RIPLEY	WV MPO	25271	11/91	06/96	8700	1	NONE	1155
SO WEST WV	WV MAIL PROCESS FAC	25800	01/90	06/92	125000	2	NONE	500
WILLIAMSON	WV MPO	25661	12/85	01/96	13000	1	NONE	1300

* NEED

1 = MORE SPACE NEEDED

2 = IMPROVE WORKING CONDITIONS

3 = CONSOLIDATION

4 = LEASE TERMINATION

5 = PURCHASE OPTION

7. Mr. Byrd: In addition, please update for the record, as you have in previous years, a list of the principal postal facilities in West Virginia, their location, and number of employees at each site. Please also provide the total number of persons employed in West Virginia by the Postal Service.

Mr. Frank: The following five pages show all Class 1 Postal Facilities in West Virginia, with the number of full-time and part-time workers, as well as other types of Postal employees.

The Postal Service employees 1,926 full-time employees, 712 part-time employees, and 2,386 employees in all other categories, totaling 5,024 employees in the state of West Virginia.

APR 17, 1990

SELECTED FINANCE NUMBERS IN WEST VIRGINIA POST OFFICES
TOTALS OF FULL-T, PART-T & OTHER EMPLOYEES
AS OF (PPOB/90)
PROGRAM NAME GFM6877

FINANCE NUMBER	WORK CITY	WORK STATE	FULL TIME	PART TIME	OTHER	TOTAL EMPLOYEES
55-0468	BARBOURSVILLE	WV	6	5	8	19
55-0564	BECKLEY	WV	70	21	16	107
55-0624	BELLE	WV	5	4	1	10
55-0702	BERKELEY SPRINGS	WV	3	3	8	14
55-0882	BLUEFIELD	WV	69	13	13	100
55-1056	BRIDGEPORT	WV	10	5	8	23
55-1128	BUCKHANNON	WV	18	6	14	38
55-1440	CEREDO	WV	1	2	1	4
55-1458	CHARLESTON	WV	652	40	116	808
55-1464	CHARLES TOWN	WV	5	5	9	19
55-1524	CHESTER	WV	8	3	3	12
55-1566	CLARKSBURG	WV	172	37	41	250
55-2304	DUNBAR	WV	12	5	2	19
55-2490	ELKINS	WV	11	6	7	24
55-2502	ELKVIEW	WV		3	10	13
55-2694	FAIRMONT	WV	51	13	21	85
55-2748	FAYETTEVILLE	WV	5	1	5	11
55-2832	FOLLANSBEE	WV	8	3	2	13
55-2922	FRANKLIN	WV		3	1	4
55-3048	GASSAWAY	WV	5	3	1	9
55-3174	GLEN DALE	WV	4	2	2	8
55-3240	GLENVILLE	WV	1	5	1	7
55-3288	GRAFTON	WV	9	5	10	24
55-3456	HAMLIN	WV		4	4	8
55-3528	HARPERS FERRY	WV		3	7	10
55-3540	HARRISVILLE	WV	1	4	5	10
55-3774	HINTON	WV	6	3	4	13
55-3884	HUNTINGTON	WV	212	22	32	266
55-3908	HURRICANE	WV	3	6	13	22
55-4008	INSTITUTE	WV	1	1	1	3
55-4242	KEARNEYSVILLE	WV	1	1	8	10
55-4278	KENOVA	WV	4	3	3	10
55-4332	KEYSER	WV	11	5	11	27
55-4404	KINGWOOD	WV	3	4	5	12
55-4722	LEWISBURG	WV	18	8	6	30
55-4854	LOGAN	WV	7	5	2	14
55-5078	MADISON	WV	4	2	1	7
55-5208	MARTINSBURG	WV	47	15	30	92
55-5448	MILTON	WV	2	5	6	13
55-5544	MONTGOMERY	WV	5	2	2	9

55-5556	MOOREFIELD	WV	2	4	1	7
55-5574	MORGANTOWN	WV	70	23	30	123
55-5592	MOUNDSVILLE	WV	14	6	10	30
55-5844	NEW MARTINSVILLE	WV	10	7	5	22
55-5892	NITRO	WV	10	4	3	17
55-5976	OAK HILL	WV	11	3	4	18
55-6210	PARKERSBURG	WV	114	21	38	173
55-6306	PETERSBURG	WV	4	8	2	14
55-6348	PHILIPPI	WV	2	5	7	14
55-6420	PINEVILLE	WV		4	1	5
55-6492	POINT PLEASANT	WV	7	6	6	19
55-6594	PRINCETON	WV	16	10	16	42
55-6728	RAINELLE	WV	3	2	1	6
55-6768	RANSON	WV	3	3	1	7
55-6786	RAVENSWOOD	WV	4	3	5	12
55-6912	RICHWOOD	WV	4	3	1	8
55-6972	RIPLEY	WV	5	5	5	15
55-7110	ROMNEY	WV	3	3	1	7
55-7118	RONCEVERTE	WV	2	5	5	12
55-7206	SAINT ALBANS	WV	32	10	8	50
55-7218	SAINT MARYS	WV	2	5	6	13
55-7224	SALEM	WV	3	3	6	12
55-7332	SCOTT DEPOT	WV		3	8	11
55-7410	SHEPHERDSTOWN	WV		2	3	5
55-7428	SHINNSTON	WV	3	3	4	10
55-7518	SISTERSVILLE	WV	3	4	5	12
55-7656	SPENCER	WV	5	5	6	16
55-7860	SUMMERSVILLE	WV	5	4	8	17
55-7896	SUTTON	WV	2	3	3	8
55-8460	WASHINGTON	WV		2	8	10
55-8484	WAYNE	WV		3	6	9
55-8502	WEBSTER SPRINGS	WV	2	4	1	7
55-8508	WEIRTON	WV	37	8	6	51
55-8514	WELCH	WV	5	5	2	12
55-8520	WELLSBURG	WV	10	3	7	20
55-8562	WESTON	WV	10	4	10	24
55-8568	WEST UNION	WV	1	2	4	7
55-8604	WHEELING	WV	147	20	20	187
55-8640	WHITE SULPHUR SPRING	WV	3	3	1	7
55-8742	WILLIAMSON	WV	5	6	4	15
55-8748	WILLIAMSTOWN	WV	2	4	5	11
			2,007	517	718	3,242

QUESTIONS SUBMITTED BY SENATOR DOMENICI

1. Mr. Domenici: The Fiscal Year 1990 appropriations act reported to the Senate contained a provision to deny eligibility for special rates to those nonprofit third-class mailers advertising commercial services and products having no direct relationship to the purpose and function of the nonprofit mailing organization. This Senate bill provision was dropped in conference. However, we requested that the Postal Service submit a report to the Committee on the amount of appropriated funds used to support commercial advertising and its recommendations to eliminate this abuse.

In its report, the Postal Service estimated that \$22 million of the appropriation to the Postal Service for revenue forgone for fiscal year 1990 supports subsidized mailings containing impermissible advertising. The report also indicates that the language in the Fiscal Year 1990 appropriations bill proposed to curb this abuse was highly subjective and, thus, difficult to enforce. The report recommended that a statutory remedy to this problem should focus on eliminating completely nonprofit rate eligibility for mailings which solicit the purchase of products or services offered by a for-profit company or organization.

If we pursued the statutory remedy suggested by the Postal Service in its report to the Committee, i.e., that mailings containing commercial advertisements are ineligible for special bulk third-class rates, what actions would be required by the Postal Service to implement and enforce this new prohibition?

Mr. Frank: Before the effective date of new legislation governing what could be mailed at the special bulk rates, the Postal Service would make conforming changes in its regulations to reflect the new restrictions. To implement new legislation governing what could be mailed at the special bulk rates, the Postal Service would have to take steps to notify the mailing public of the changes and to revise regulations based on the new law. The Postal Service believes minimal training would be required to ensure proper enforcement of the new provisions banning certain types of advertising mail.

2. Mr. Domenici: The Administration has submitted legislation to terminate eligibility for special reduced mail rates for: (1) second-class nonprofit mail with an advertising content of 10 percent or more (saving \$27 million) (2) third-class nonprofit mail containing commercial advertising (saving \$22 million); (3) fourth-class mail sent by profit-making publishers (saving \$1 million); (4) "education" mail sent by organizations which do not maintain a teacher/student relationship (saving \$42 million); and (5) political advocacy mail (saving \$20 million). The Administration proposal would save a total of \$112 million. Would the Administration's proposal to terminate abuses in the reduced postage rate program present any enforcement problems for the Postal Service? If so, would you please identify what they would be.

Mr. Frank: Several of the proposals would cause particular implementation problems. In each instance, they pertain to third-class nonprofit mailings.

Of particular concern is the proposal to limit "political advocacy" mailings. Determination of what constitutes "political advocacy" is subjective, and would be a difficult decision for a postal employee to make when attempting to establish whether the materials presented for mailing would qualify for the nonprofit rates. For example, is it political advocacy when a nonprofit

nature conservancy organization sends a mailing to its members urging them to support pending legislation which would achieve the organization's goals of curbing air pollution? What if the same organization sent a mail piece which urged its members simply to seek ways of curbing air pollution, but does not mention specific pending legislation or politicians?

Additional administrative problems are posed by the proposal to restrict advertising in third-class nonprofit mail. As with many similar proposals, the Office of Management and Budget (OMB) proposal is deficient in that it provides for a subjective test of what is permissible that cannot be readily understood by the 300,000 third-class nonprofit mailers or by postal personnel at over 35,000 post offices and branches.

The proposal to limit educational nonprofit status to schools will take considerable time to implement. The Postal Service would have to review the status of the current 90,000 nonprofit permit holders in a organized, consistent manner. Otherwise, court determinations could be subject to legal reversal due to large-scale inconsistencies. A systematic review of educational nonprofit permit holders could not be completed in time to take full advantage of the potential revenue forgone savings in Fiscal Year 1991.

Two proposals could be implemented easily. The proposal to charge second-class nonprofit publications commercial rates is feasible. Unlike the proposal for third-class nonprofit, this proposal relies on a well-understood definition of advertising which is already employed in the determination of second-class rates.

The proposal to prohibit the use of library rates for publishers who mail to schools is feasible. It is relatively simple to determine which mailers also sending books are publishers and assure that they are using the available nonsubsidized fourth-class rates.

Mr. Domenici: Would you please provide for the record a table showing the price per piece of mail subsidized mailers will pay as compared to the price paid by nonsubsidized mailers, both before and after the proposed rate increase, along with the price each of these subsidized mailer would pay under the Administration's postal rate reform legislation.

Mr. Frank: Please see Attachment A, a chart depicting some illustrative examples of subsidized (preferred) rates and unsubsidized (regular) rates. Under the Administration's proposal, subsidized mailers who are unaffected by the eligibility restrictions would continue to pay the subsidized or preferred rates. Mailings which are prohibited from using the subsidized rates would, instead, be assessed the unsubsidized or regular rates shown on the chart.

ATTACHMENT A

ILLUSTRATIVE EXAMPLES 1/

Class of Service	PREFERRED PRICE LEVELS AT CURRENT AND PROPOSED RATES, PERCENT CHANGE FROM CURRENT RATES		COMMERCIAL PRICE LEVELS AT CURRENT AND PROPOSED RATES, PERCENT CHANGE FROM CURRENT RATES	
	Current Rates (Step 16)	Proposed Rates (Step 16)	Current Rates (Approximate)	Proposed Rates (Approximate)
Second-Class Publications				
In County	6.1	7.15 16%	11.2	12.4 11%
Nonprofit:				
Classroom	13.5	17.8 32%	17.6	23.6 34%
Science of Agriculture	12.4	15.3 23%	13.0	16.2 24%
Third-Class Nonprofit				
Carrier Route Presort	5.3	6.1 15%	10.1	11.1 10%
Presort to Five Digits	7.1	9.1 28%	12.7	14.7 16%
Required Presort	7.9	9.9 25%	16.2	17.1 6%
Fourth-Class Library Rate	87.0	89.0 2%	125.0	144.0 15%

1/ See next page for illustrative examples.

DESCRIPTION OF ILLUSTRATIVE PREFERRED RATE EXAMPLES

Second-Class Publication

In-County

 Rural Newspaper:
 Frequency: Weekly
 Weight: 5 Ounces
 Advertising: 45¢
 All Delivered in County
 Presorted to Carrier Route
 Entered at Delivery Office

Nonprofit

 Veterans' Magazine
 Frequency: Monthly
 Weight: 4 Ounces
 Advertising: 20¢
 New York to Pittsburgh
 Presorted to 5 Digits

Classroom

 Classroom Publications
 Frequency: Weekly
 Weight: 10 Ounces
 Advertising: 15¢
 New York to Chicago
 32 Copies per Piece
 Presorted to 5 Digits

Science of Agriculture

 Rural Agricultural Newspaper
 Frequency: Weekly
 Weight: 4 Ounces
 Advertising: 50¢
 Within 150 Miles of Entry
 Presorted to 5 Digits
 Entered at Destination SCF

Third Class

Nonprofit

 Fund-Raising Letter
 Weight: 3/4 Ounce
 Nationwide Distribution
 Carrier Route Presort
 Entered at Destination BMC
 Presorted to 5 Digits
 ZIP+4 Coded
 Required Presort
 ZIP+4 Coded

Fourth Class

Library Rate

 Book between Libraries
 Weight: 2 Pounds
 New York to Chicago

4. Mr. Domenici: By how much has the "equal markup" method of computing the revenue forgone appropriation reduced the Fiscal Year 1991 requirement of \$512.790 million to maintain current mail subsidies?

Mr. Frank: The "equal markup" method of computing the appropriation reduces the subsidy request by \$620 million in Fiscal Year 1991, absent a general rate increase.

5. Mr. Domenici: The Fiscal Year 1991 request includes \$38.142 million for payment to the employees' compensation fund to meet liabilities of the former Post Office Department. Does this amount include all payments owed in previous years for which appropriations were not provided? If not, what is the amount required to reimburse the Department of Labor for all amounts previously billed but currently unpaid?

Mr. Frank: Congress has appropriated funds for all Post Office Department (POD) workers' compensation requests made through Fiscal Year 1985, and the amount requested for Fiscal Year 1990. Of the total \$156.12 million requested in Fiscal Years 1986-1989, only \$1 thousand has been appropriated. The following schedule provides historical details of the POD workers' compensation liabilities including the \$194.778 million currently unpaid.

<u>Budget Year</u>	<u>Costs (\$000)</u>	<u>Unappropriated Amounts (\$000)</u>
1974	30,096	
1975	24,451	
1976	27,913	
1977 & T.Q.	30,805	
1978	33,791	
1979	34,632	
1980	35,655	
1981	37,109	
1982	38,240	
1983	39,991	
1984	42,790	
1985	42,066	
1986	39,128	No Funds Appropriated 39,128
1987	40,049	No Funds Appropriated 40,049
1988	39,507	\$1,000 Appropriated 39,506
1989	37,436	No Funds Appropriated 37,436
1990	36,942	517*
1991	38,142	FY 1991 Request 38,142
		Unappropriated Total <u>194,778</u>

* Reduction pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-77.

6. Mr. Domenici: The legislative proposal submitted by the Administration would establish a separate cost-based Federal government mail subclass to recognize the government's efficiency in preparing mail and to reduce the Federal government's postage costs by \$220 million per year.

- A. The Administration maintains that government mail is relatively inexpensive for the Postal Service to collect, sort, and deliver. Is this true? Do cost coverages for government mail currently exceed that of other mail in the same category? Please explain.

Mr. Frank: Like that of many other larger mailers, the Federal Government's mail exhibits some characteristics which result in this mail being less expensive to handle than mail in general.

Cost coverages are calculated for each class or subclass of mail simply as the revenues over the attributable costs for the class or subclass. The cost coverage for a particular class or subclass of mail is an average and reflects the inclusion of both the higher-than-average and the lower-than-average pieces within that class or subclass. If, for a particular class of mail, government mail is cheaper than the average for that class, then the rates which the government is paying result in a higher cost coverage for a particular piece of mail with particular cost characteristics. This situation is not unique to the government, however. For every class of mail there are pieces of mail which are of lower cost than the average piece, and there are pieces which are of higher cost than the average piece. Because the rates necessarily reflect the average cost characteristics, very few pieces will achieve exactly the cost coverage of the class or subclass as a whole.

The Postal Service's proposed rates before the Postal Rate Commission include several new proposals which recognize certain cost-saving characteristics of mail preparation, and contain discounts reflecting the cost savings. To the degree

that the government mail's low-cost characteristics can be identified, the Federal Government, like all mailers whose mail shares those characteristics, will be able to benefit from the proposed discounts.

Moreover, the Postal Service has identified a number of areas where the Federal Government can save on its postage bill using existing discounts. The Postal Service is initiating a program to work with the agencies in obtaining these already available savings.

Finally, the data which has been collected on government mail has not been closely examined for rate-making purposes and may not be of the same quality as data used in developing rates. The collection of government mail data as a separate category from non-government mail began under the former Post Office Department. The collection of this data was in response to requests for such information by the Congress, which, at that time, set postage rates.

- B. The Postal Service's budget justification indicates that this proposal would involve several complications: (1) a complete separate schedule of rates would have to be developed and would be complex to administer; (2) separate rates for government mailers might be discriminatory. Other mailers might justify being granted lower rates based on the same rationale; and (3) any revenue losses from government mail would have to be recovered through higher rates for other mail categories.

1. How many large businesses do you estimate might match or exceed the low cost attributes government mail might have?

The Postal Service does not collect information which would permit a determination of the total costs of the mail of any large customer or any particular industry. However, postal data systems show that First-Class and third-class presort mail exhibits many of the same low-cost characteristics as does government mail. There are thousands of mailers in these categories.

2. How much might the increase be in rates paid by individuals and other mailers to finance this proposed cut in rates for government mail?

The Postal Service can not predict what would be the specific increase in rates. The \$212 million reduction in revenue for government mail alone would only necessitate an additional increase of less than 0.5 percent. However, if as a result of the development of separate rates for government mail, other large mailers begin to demand that they each should have their own rate schedules reflecting the particular characteristics of their mail, then billions of dollars in revenues could be lost. A basic letter rate several cents higher than the proposed 30 cents would be conceivable for individuals and small businesses in that instance. Ultimately, as large mailers begin demanding individual rate schedules, the rates will be de-averaged, resulting in only the average and higher-cost mailers remaining in the subclasses. The rates for such mailers will necessarily rise as rate schedules become more de-averaged.

7. Mr. Domenici: The Alliance of Nonprofit Mailers has recently submitted to the Subcommittee its position paper on cooperative mailings. That paper contains six general recommendations. Paraphrasing, they recommend that the postal Service clarify existing regulations on what can and cannot be mailed under special bulk third-class rates; that the Postal Service ensure more uniformity in its decisions on contested mailings; that procedures be established to provide mailers with pre-mailing determinations; and that steps be taken by the Postal Service to ensure the widest possible distribution of regulations, rulings, interpretations, etc., bearing on the acceptability of mailing pieces. Are you aware of these recommendations? Do you consider them to be legitimate concerns? If so, what actions is the Postal Service taking to address these problems?

Mr. Frank: Although the Alliance declares its opposition to the abuse of the nonprofit mailing privilege, its general recommendations on the subject would do little to discourage "business as usual" in the cooperative mail arena, and nothing to solve the after-the-fact enforcement problems facing the Postal Service. Indeed, in those areas where the Alliance has made useful suggestions, the Postal Service has already begun to take corrective measures:

Forbearance in Assessing Back Postage. The Postal Inspection Service has established a two-year "window" for assessment of postage deficiencies arising from its recent investigation of improper cooperative mailing activity. Although it is based in part on practical and record-keeping considerations, this self-imposed moratorium also serves as an equitable limit on the financial liability of nonprofit organizations

Clarification of Existing Regulations. The Postal Service has commenced numerous projects to educate mailers regarding the cooperative mailing restrictions. Among these are the publication of a new mailer's brochure on special bulk third-class mail, a separate brochure concerning cooperative mailings, and the revision of special bulk third-class mailing statements to set forth specific warnings and penalties regarding prohibited practices.

Centralized, Expedited Classification Rulings. While the Postal Service makes every effort to expedite mail classification decisions, the complexity of cooperative mailing arrangements and the need to obtain documentation from mailers frequently makes it impossible to provide quick rulings in these cases. By exercising its discretion to review cases of first impression or other significant decisions made by a Rates and Classification Center, the Office of Classification and Rates Administration promotes uniformity in mail classification decisions without unduly sacrificing speed.

Pre-Mailing Determinations and "Safe Harbors". The complexity of the financial and other arrangements which underlie cooperative mailing ventures, and the need to obtain and review documentation of these arrangements, make it impracticable to provide pre-mailing determinations of eligibility within a reasonable time. In view of the past efforts of some mailers to disguise the true nature of cooperative mailing schemes, the Postal Service also doubts the wisdom of providing "benchmarks" or "safe harbor" rulings for the guidance of mailers. In the competitive arena of credit card, insurance, and travel promotions, such rulings would be less likely to establish limits on cooperative mailing activity than to provide a springboard for even more

creative efforts to circumvent Postal Service regulations. In the place of such rulings, the ongoing efforts of the Postal Service to educate its customers regarding the cooperative mailing rules should be sufficient to enable prudent organizations to steer clear of abusive practices.

Wider Distribution of Rulings. The Office of Classification and Rates Administration attempts to inform mailers and postal personnel of important rulings and similar developments through the dissemination of a monthly newsletter, the "Classification Currents Communicator", as well as through the distribution of significant customer support rulings. In addition, as mentioned above, the publication of new customer handbooks and the revision of bulk third-class mailing statements are designed to increase mailer awareness in this area.

Reimbursement for Appropriations. The reconciliation procedures mandated under 39 U.S.C. 2401(c) will continue to be used to ensure that the appropriate amounts collected on past cooperative mailings are credited to the United States Treasury.

8. Mr. Domenici: The sixth recommendation of the Alliance is that steps be taken to ensure that funds collected under deficiency statements for mailings mailed at special rates and later found subject to regular rates be reconciled against future revenue foregone requirements and that the accounting be detailed in the Postal Service's annual Comprehensive Statement to the Congress. Since the Postal Service was initially compensated through a Federal appropriation for the cost of these mailings, is this funding restored to the revenue forgone appropriation if they were found improper and a deficiency payment was assessed? Would you please explain how this works?

Mr. Frank: The recovered subsidy of \$491,000 will be used to offset the Fiscal Year 1991 appropriations.

The Postal Service reimburses Congress the full amount of the postage recovered for deficiencies on mailings from prior to April 3, 1988, because for those mailings, Congress subsidized the full difference between the two rates. After April 3, 1988, the equal markup method for determining the appropriation was implemented. Under "equal markup," Congress subsidizes only 44 percent of the difference in the nonprofit and the commercial third-class rate. When the Postal Service collects the postage deficiency, it receives the difference in the nonprofit rates already paid by the mailer and the commercial rates that are due for a cooperative undertaking. Consequently, of the funds recovered for mailings which occurred after April 3, 1988, the Postal Service will return the 44 percent of the recovered funds which represents the Congressional subsidy.

9. Mr. Domenici: Would you please review for us the Postal Service's current regulations governing special mail rates, what a nonprofit mailer must now do to certify that a mailing qualifies for the special rate, and the Postal Service's current activities to regulate and oversee mailings to prevent abuse in this area.

Mr. Frank: Domestic Mail Manual (DMM), sections 625.51 and 625.52 provide that a nonprofit organization may mail only its "own" matter at the special bulk rates, and may not "delegate or lend" its permit to another person or organization. Postage on any mailing of matter "in behalf of or produced

for" a commercial firm must be paid at the applicable regular rate. The nonprofit mailer's signature on a bulk mailing statement certifies that the mailing does not violate these provisions and is not an improper cooperative mailing.

Under the current regulations, which are based on statutes which placed no explicit restrictions on the use of the nonprofit mailing privilege, the Postal Service simply has no practical alternative to accepting mail at the special rate if it is tendered by an authorized organization and appears on its face to be that organization's "own" matter. Indeed, it would be unrealistic to expect mail acceptance personnel to interrupt mail processing functions to inquire into the pedigree of a nonprofit mailing, or to believe that the driver depositing the mail at the loading dock would be able to respond to their questions. As a result, the Postal Service must generally police the cooperative mailing restrictions after the mail enters the postal system. This state of affairs does not serve the best interests of the Postal Service or its customers.

10. Mr. Domenici: In its February 1990 report on cooperative mailings, the Postal Inspection Service determined that a small group of commercial, for-profit organizations were soliciting and entering into joint mailings with a much larger group of nonprofit permit holders resulting in the payment of lower postage rates being subsidized by the Federal government.

In the report, the Postal Inspection Service says that it believes the \$2 million identified during the audit is but a small percentage of abuses in this area.

- A. What number of nonprofit organizations and number of cooperative mailings were the subject of the Fiscal Year 1989 audit?

Mr. Frank: Inspection Service investigations during the cooperative mailings audit disclosed 31 million pieces of mail, involving 150 nonprofit organizations, which did not qualify for nonprofit postage rates.

- B. What do you believe to be a more accurate representation of the full amount of abuse occurring in this area?

It would be difficult to estimate the amount of abuse. We do know that during the short period of the Inspection Service investigations, \$2 million in revenue deficiencies due to cooperative mailing ventures, and similar deficiencies totaling an additional \$3.5 million were identified. Also, the investigations were focused on the most obvious areas of abuse, including credit cards, insurance and travel. Cooperative ventures undoubtedly exist in other areas, such as educational seminars.

- C. What is the current amount of deficiencies outstanding as a result of unauthorized cooperative mailings? What was the total amount of deficiencies assessed in Fiscal Year 1989? What was the amount collected?

For the calendar year ending December 31, 1989, the Postal Service had identified \$2,179,000 in revenue deficiencies. Of this amount, \$354,000 had been collected and \$1,825,000 remained outstanding.

- D. Based on experience, what percent of assessed deficiencies are generally collected by the Postal Service?

That information is not available. Records of revenue deficiencies generally are identified and collected at the local level.

- E. When deficiencies are assessed and collected as a result of a subsidized mailer's abuse of its mailing privileges, where are these funds deposited?

The Postal Service does not segregate the moderate amount of funds collected from mailers who abuse these mailing privileges. All cash receipts are deposited into a common fund.

For Fiscal Year 1991, the recovered subsidy of \$491,000 will be used to offset the Fiscal Year 1991 appropriation. In subsequent years, the appropriate amount of the deficiencies collected will be used to adjust future year revenue forgone appropriation requests through the reconciliation adjustment process.

11. Mr. Domenici: The report points out that when deficiencies are assessed because mailings are found to be in violation of the regulations, the nonprofit permit holder is simply obligated to pay the difference between the nonprofit and regular bulk rates. The violator does not pay interest on the use of these funds, nor can penalties be assessed under the current regulations. In addition, a permit holder can continue mailing although funds are due the Postal Service from prior deficiencies.

- A. In its February report to the Committee, the Postal Service indicates that it plans to publish a proposed rule to strengthen its ability to collect the unpaid revenue deficiencies incurred on such mailings by applying deposits intended for future mailings to the unpaid deficiency.

When will the proposed rule to allow application of postage deposit accounts to outstanding postage deficiencies be published?

Mr. Frank: The Postal Service published its proposed rule change in the Federal Register on April 26.

- B. Can the Postal Service, by regulation, revoke a nonprofit mailer's permit if a nonprofit does not pay a deficiency assessed against it for violation of its mailing privileges? If not, do you recommend a statutory change to allow for this?

The Postal Inspection Service's report indicates one problem with this is that an organization whose permit has been revoked can become a new entity, entitled to a new permit, within days of revocation. Is there any way to prevent this?

Existing laws and regulations do not explicitly provide that special bulk third-class mailing privileges may be revoked for failure to pay a revenue deficiency. The eligibility requirements, which are based upon former statutes, look only to the purpose of the organization and not its past mailing practices. Thus, they do not provide that the authorization may be revoked for past abuses, or provide guidance as to what would be done if the organization submits a new application or reorganizes. At best, moreover, administrative action to revoke a nonprofit permit is cumbersome, time-consuming, and subject to a lengthy appeal process. A more useful remedy, in our opinion, would be a regulation such as the one published in the April 26 Federal Register which provides that an unpaid deficiency will be

cause for the Postal Service automatically to divert any future deposits of funds to the payment of the deficiency.

- C. Does the Postal Service recommend a statutory modification to allow for the assessment of interest and penalties against nonprofit mailers who fail to comply with postal regulations, in addition to the revenue deficiency? What interest and penalty assessments would you propose?

Not only cooperative mailing activity, but other schemes to avoid the full payment of postage might be deterred by measures which allowed the immediate or automatic assessment of interest and penalties for under-payment of postage. The effectiveness of such measures would be enhanced if they applied not only to nonprofit mailers, but to their commercial partners in cooperative mailing ventures. It is clear, however, that such measures would not correct the fundamental difficulty which confronts the Postal Service in this area--the inability to bar the use of the nonprofit privilege for certain types of advertising mail, which leads in turn to the after-the-fact enforcement of the cooperative mailing rules.

For maximum effectiveness, such assessments should be distinct from existing laws which authorize the assessment of interest and penalties against mailers in special circumstances. Under 18 U.S.C. 1001, the submission of a false, fictitious, or fraudulent mailing statement may result in imprisonment for up to 5 years and a fine of up to \$10,000. Under 31 U.S.C. 3802, an additional civil penalty of up to \$5,000 and an assessment of twice the amount falsely claimed may be imposed for each such offense.

12. Mr. Domenici: To curb current abuses, the Postal Inspection Service recommended that regulations be modified to not allow mailings at the special bulk rate where an agreement exists between a for-profit and nonprofit mailer. In addition, it recommended that brochures advertising services and goods normally related to commercial businesses be prohibited from being mailed at the special bulk rate. Is the Postal Service considering implementation of this recommendation? If not, why?

Mr. Frank: The statutes establishing the nonprofit mailing privilege focused upon the qualifications of the organization, and not the content of its mail matter. It is doubtful under existing law that the Postal Service could prohibit the use of the nonprofit mailing privilege for an organization's "own" mail and purposes, whether or not those purposes would normally be considered "commercial" in nature. Indeed, nonprofit organizations regularly employ commercial firms as mailing agents to prepare and send their "own" bulk mailings, and may legitimately use the nonprofit mailing privilege to promote their "own" fund-raising ventures.

The cooperative mailing rules place a reasonable limit upon such activities, by forbidding the use of the special rates to mail matter which is designed to serve the uses of or benefit a commercial entity, and is thus not the permit holder's "own" mail. Thus, materials which have been paid for or produced by a commercial firm, or which promote the business venture of a commercial party, or, for that matter, a joint venture between a nonprofit organization and a commercial partner, are not eligible to be mailed at the nonprofit rate. Similarly, mailings for which the nonprofit organization is reimbursed, and arrangements through which an organization is reimbursed for, on essentially "rents" the use of its permit, are improper. Where abuses of this type are not present, the authority of the Postal Service to

curtail particular uses of the nonprofit mailing privilege is at best unclear.

13. Mr. Domenici: The Postal Inspection Service also recommended that the Postal Service make changes to assess revenue deficiencies against the for-profit groups. Management's response to this recommendation was that the ability to assess a deficiency against the for-profit company would be a useful and practical addition to the Postal Service's regulatory authority but it believes such cases are rare. Would you please explain this. Didn't the audit find that for-profit companies solicited and entered into the joint ventures behind the unauthorized mailings it uncovered?

Mr. Frank: In appropriate circumstances, the Postal Service may be able to assess a postage deficiency against a for-profit participant in a cooperative mailing venture. Such action is generally possible where the commercial firm has established a direct link or nexus with the Postal Service, as either the permit holder or the mailing agent for the mailing in question. Unfortunately, however, such instances are rare, so the Postal Service assesses the deficiency against the nonprofit organization which used its permit to mail matter for the benefit of the commercial firm. Ironically, in the typical cooperative mailing venture, the commercial firm is the true party in interest, and stands to reap the benefits or bear the losses of the enterprise.

14. Mr. Domenici: According to the Postal Inspection Service's report the Postal Service is establishing a new requirement to require nonprofit organizations to submit an affidavit with special rate mailings certifying that the mailing is the organization's own, made at its expense, and is not an improper cooperative mailing. The Postal Service's February report to the Committee indicates it is considering the feasibility of requiring a nonprofit organization to submit certification statement each time it submits a mailing at the special bulk third-class rates containing a notice that some materials are not available at the special bulk third-class rates and subjecting the organization to financial penalties if it submits a false statement. Are we talking about two separate certifications here—one that has already been implemented and a second that you are now considering the feasibility of? Please explain.

Mr. Frank: Only one certification will be required. It will appear on the mailing statement submitted by the nonprofit organization or its agent at the time of the mailing. The certification currently found on these statements will be expanded to ensure that the mailer understands what can be mailed at the special rates and the penalties for making an improper mailing.

15. Mr. Domenici: The Postal Inspection Service report mentions that quality control reviews are limited to detecting questionable mailings still in the mail processing system. It recommended that a Postal Service policy be established to require that a sample of third-class mailings be attached to the mailing statement and be maintained by the Postal Service for quality control reviews. The report indicates that management's response to this recommendation was that this would place a cumbersome responsibility on field office personnel. This recommendation seems to make sense to me. Would you please explain why it would place a "cumbersome responsibility on field office personnel"?

Mr. Frank: The Postal Service cannot predict how field offices would cope with the prospect of retaining sample mail-pieces. There would be thousands of pieces which would have to be

recorded, filed, and maintained in some fashion. The Postal Service does not question the utility of having the pieces on hand if a question is raised on any particular mailing. It would be useful. However, it is one more means of taking action after ineligible mailings have been accepted into the postal system at the special rates. The Postal Service seeks changes which will prevent improper mailings from being accepted at the special rates.

16. Mr. Domenici: The Postal Service audit report on cooperative mailings found that a small group of commercial, for-profit organizations were soliciting and entering into joint ventures with a much larger group of special bulk rate mailers. It also indicated that the unauthorized cooperative mailings reviewed involved complicated contracts or financial arrangements known only to the nonprofit groups and for-profit companies entering into these joint ventures.

- A. Would you please describe the type of contract or financial arrangement that existed between these nonprofit groups and for-profit companies?

Mr. Frank: A typical contract or financial arrangement involves affinity credit cards to market VISA or Mastercards issued by a for-profit bank. The cards bear the logo of a sponsoring nonprofit organization, such as an alumni group, labor union, or fraternity, which allows the use of its nonprofit mailing permit to mail solicitations to its members. In most cases, the solicitations are actually prepared and distributed by a marketing firm which specializes in dealing with nonprofit organizations, and recruiting new groups to participate in the venture. Mail preparation and postage costs are typically covered by the marketing firm, either directly or through some form of guarantee or reimbursement to the nonprofit group.

The basic objectives of an affinity card venture are to increase the credit card revenue of the bank, to enable the bank to expand its market share in the crowded credit card market, to provide the bank with a higher than usual rate of response to its direct mail solicitations, to enable the bank to establish new financial relationships with members of upscale organizations, and to enhance the bank's public image through association with those organizations. The rapid spread of these ventures suggests that these objectives are being met.

The marketing firm which prepares and distributes the solicitation materials also prospers from the venture. To cover its fee, mailing costs, and other expenses, the firm may be paid an amount negotiated with the bank, or it may receive a share (typically .5 percent) of the amount charged on the affinity cards.

Finally, the sponsoring nonprofit organization makes money from the use of its mailing permit and membership list. These payments may be expressed in a variety of ways--a percentage (typically .5 percent) of the amount charged on its affinity cards, a flat rate (generally \$.25) for each affinity card transaction, a flat rate (usually between \$1.00 and \$5.00) for every new account opened--but are designed to assure that the organization receives a certain level of income and to insulate it from financial risk.

Another example involves group life insurance ventures to market insurance policies underwritten by a commercial insurance firm. To minimize administrative and other costs,

the group policies are issued to a group insurance trust held by a bank or similar institution as trustee. An insurance marketing and services firm typically acts as the coordinator and administrator of the trust, with responsibility for the operation of the insurance program, as well as the marketing and administration of the group policies. Nonprofit organizations, such as college alumni associations, agree with the insurance administrator to become sponsors of the trust, and to allow the use of their nonprofit mailing permits to mail solicitations to their members. In most cases, the solicitations are prepared and distributed by the administrator, who is subsequently responsible for acceptance, billing, and other correspondence with individual subscribers. Mail preparation and postage costs are typically covered by the administrator, who is reimbursed for these and other expenses out of the surplus premiums paid by subscribers.

The premiums paid by individual subscribers are placed in deposit accounts managed by the administrator. Each year, after the payment of the premiums on the group policies issued to the trust, an allowance for the fees of the trustee and the administrator, and deduction of the administrator's expenses including solicitations and mailing costs, the remaining amounts are distributed as dividends to the sponsoring organizations, in accordance with a pre-set formula which reflects the amount of insurance sold to the members of each organization.

A group insurance venture is primarily designed to promote the sale of insurance in a competitive market. It provides the insurance company with access to a cohesive and generally affluent group of potential customers, and facilitates sales to the members of that market segment through their association with the sponsoring organization. The insurance administrator is compensated for his role in this process not only by the reimbursement of his mailing costs and other expenses off the top of the surplus subscriber payments, but also by allowance for administrative services which may be calculated by applying a per-life/per-year factor to the number of insured subscribers, or expressed as a percentage of the premium paid to the insurance company. The sponsoring organization, of course, is also rewarded through a share of the dividend for the use of its mailing permit and membership list.

Specific provisions from contracts are noted below:

Insurance Program

- A) Responsibilities of the nonprofit organization allow the use of a nonprofit postal permit (if available) for the use of soliciting sponsored insurance programs.

Responsibilities of Insurance Company

- A) Assume the responsibilities of billing and collecting premiums from insured members. Process all applications, issue policies, pay and process claims, and answer correspondence relative to the nonprofit organization group insurance plans.
- B) Develop advertising materials for promotional mailings on all programs and coordinate promotional campaigns.
- C) Provide the nonprofit organization with an allowance up to 5 percent of all renewal premiums collected under the

nonprofit organization's officially sponsored insurance programs. The allowance will be paid to nonprofit organization approximately 60 days after the semi-renewal collection date of each plan.

Insurance companies underwriting all group insurance plans shall be selected by the commercial company and shall be subject to approval by the nonprofit organization.

A third example involves travel ventures which generally market package tours or travel programs arranged by a commercial travel agency. These promotions may be recreational in nature, or may combine recreation with visits to places of cultural or historical interest. The travel plan typically is aimed at the members of a sponsoring nonprofit organization, such as a fraternity or alumni association, which allows its nonprofit permit to be used to mail solicitations. In most cases, the solicitations are prepared and distributed by the travel agency, which may specialize in dealing with nonprofit organizations. Mail preparation and postage costs typically are covered by the travel agent, either directly or through some form of reimbursement to the nonprofit group.

As a rule, a travel venture is designed to expand the business volume for the commercial travel agency. Through its association with the nonprofit organization, the travel agency is able to target its solicitations on an affluent group of potential customers who presumably have common interests. As reimbursement for lending its name, mailing permit, and membership list to the venture, the nonprofit organization typically receives a number of free travel packages, based on the number of members who sign up for a particular tour.

A specific travel provision examined included the following provision:

Travel

"The above prices include a remuneration of \$50 per person to the Alumni Association."

- B. Is it fair to say that most of the joint ventures behind these unauthorized cooperative mailings are proposed by the for-profit companies and primarily for their benefit?

Based on Postal Inspection Service investigations, this appears to be true. The for-profit company gains lower postage and a large profit in these joint ventures.

17. Mr. Domenici: The Postal Inspection Service Report indicates that the Postal Service has expended considerable resources to identify improper cooperative mailings. Could you give us some idea of the expense involved? How much did the Inspection Service expend in each of Fiscal Years 1988 and 1989 on this?

Mr. Frank: The Inspection Service does not isolate work-hours spent in auditing the unauthorized use of the special rate permits. The current work-hour reporting system is designed to identify hours to types of work, such as revenue protection. However, this system is flexible and could be adjusted, if needed, to report hours devoted to investigating nonprofit permits during Fiscal Year 1991. The Inspection Service did specifically track the hours used for its Cooperative Mailings Audit. Approximately 8,000 investigative hours were devoted to

the audit in Fiscal Year 1989. To date, the Inspection Service has spent approximately 2,000 hours on similar activity in Fiscal Year 1990.

18. Mr. Domenici: In October 1989, you advised me that the Tucson Field Division was conducting an Area Mail Processing study to determine the feasibility of transferring the outgoing mail processing operation from Las Cruces to El Paso. The final decision on a transfer is to be made at headquarters in Washington. Has this study been completed?

A. If so, what were the findings and recommendations?

B. When do you expect headquarters to make a decision on this issue?

Mr. Frank: The Tucson Division completed its internal study and it was decided at that time that such a move would not be feasible.

19. Mr. Domenici: In 1986, the Postal Service initiated a project to construct a new post office in Alamogordo. The Omnibus Budget Reconciliation Act of 1987 reduced the capital budget of the Postal Service resulting in the delay of a number of facility projects. The Alamogordo project was deferred indefinitely and was not included in the 1989 Five-Year Plan. What is the long-range plan for providing a new facility for Alamogordo and when will the project be initiated?

Mr. Frank: The present Fiscal Year 1990-1994 plan does not contain funding for construction of the Alamogordo Post Office. The region will be updating its priority listing later this year and will again review the status of the Alamogordo Post Office. In the interim, recognizing the need for parking, the Postal Service is working with the city to designate postal parking areas. In addition, the local postal managers are attempting to locate contract postal units in the area to provide additional retail services.

20. Mr. Domenici: Would you please provide for the record the Postal Service's Five-Year Plan for facilities construction in New Mexico.

Mr. Frank: The information requested is depicted on Attachment B.

ATTACHMENT B

FIVE YEAR FACILITY PLAN FISCAL YEARS 1991-1995

NEW CONSTRUCTION LEASED STATE OF NEW MEXICO

Fiscal Year 1991:

- Hachita - Main Office
- Saint Vrain - Main Office
- Jarles - Main Office
- Ledoux - Main Office
- San Jose - Main Office
- San Ysidro - Main Office
- Cerrillos - Main Office
- Reserve - Main Office
- San Antonio - Main Office
- Paguete - Main Office
- McIntosh - Main Office
- Carson - Main Office

Fiscal Year 1992:

- Central - Main Office
- Serafina - Main Office
- Chimayo - Main Office
- Lincoln - Main Office
- New Laguna - Main Office
- Embudo - Main Office
- Tesuque - Main Office
- La Mesa - Main Office
- Vallecitos - Main Office

Fiscal Year 1993:

- Penasco - Main Office
- Chamberino - Main Office
- La Madera - Main Office
- Buena Vista - Main Office
- Arroyo Seco - Main Office
- Mule Creek - Main Office
- Wagon Mound - Main Office
- Costilla - Main Office

Fiscal Year 1994:

- Des Moines - Main Office
- Grants - Milan Branch
- Fairacres - Main Office
- Navajo Dam - Main Office
- Logan - Main Office

Fiscal Year 1995 - Project not yet available.

PRELIMINARY FIVE YEAR FACILITY PLAN
FISCAL YEARS 1991-1995

NEW CONSTRUCTION OWNED
STATE OF NEW MEXICO

Fiscal Year 1991 budget = \$2,600,000

- Albuquerque, General Mail FAC - Site purchase.

Fiscal Year 1994 budget = \$5,032,000

- Albuquerque, West Mesa - Design and construction award.
- Albuquerque, Paradise Hills - Design and construction award.

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

STATEMENT OF DON W. WILSON, ARCHIVIST OF THE UNITED STATES

ACCOMPANIED BY:

CLAUDINE J. WEIHER, DEPUTY ARCHIVIST OF THE UNITED STATES

JAMES C. MEGRONIGLE, ASSISTANT ARCHIVIST FOR MANAGEMENT
AND ADMINISTRATION

INTRODUCTION OF WITNESSES

Senator DECONCINI. Our next panel will consist of representatives of the National Archives. If they are here, they should come forward and be seated.

We are pleased to take testimony on behalf of the National Archives, from Dr. Don Wilson, Archivist of the United States; Ms. Claudine Weiher, Deputy Archivist; and Mr. James Megronigle, Assistant Archivist. We thank you for being here.

Good morning.

Dr. WILSON. Good morning.

Ms. WEIHER. Good morning.

Mr. MEGRONIGLE. Good morning.

Senator DECONCINI. Dr. Wilson, your fiscal year 1991 budget request for the National Archives totals \$128 million. That amount reflects an increase of \$3.160 million over the fiscal year 1990 level. It is my understanding that the National Archives will be celebrating its fifth anniversary as an independent agency this year. Congratulations. We certainly wish you success. If you would summarize your statement for us, and we will put your full statement in the record.

OPENING STATEMENT

Dr. WILSON. Thank you, Senator.

I would like to say at the outset how grateful we are for the strong support exhibited by this committee for the National Archives. During very difficult budget times, when this committee has had many worthwhile programs competing for scarce resources, you have made the design and construction of a new Archives building possible. You have supported, and indeed saved, the National Historical Publications and Records Commission's grant programs, and you have provided a level of funding necessary to enable the National Archives to carry out its basic mission.

ARCHIVES II FACILITY

I am very pleased to report that we have successfully and favorably obtained the financing needed for the new building. We have concluded our agreement with the University of Maryland for the use of the land in perpetuity without charge, and we are nearly

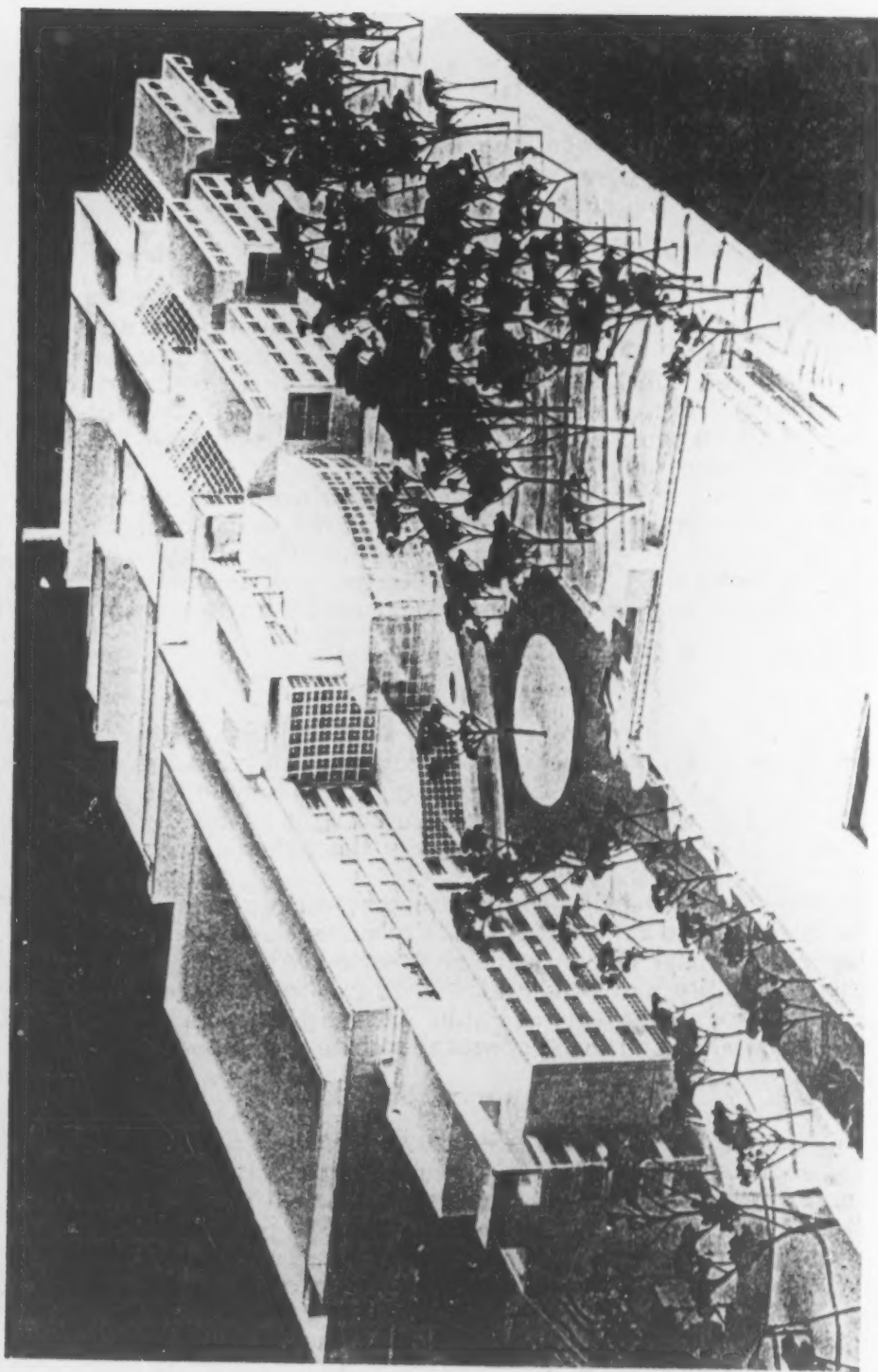
finished with the site clearing and grading in preparation of construction of the building.

Construction work on the parking structure is just now about to get under way, and the building construction will begin later this year.

We do have a photograph of the design, which Jim Megronigle has, and we will share it with you. This will give you an idea of what the completed project will look like in 1993.

Construction is right on schedule. That statement we don't often get to make on Government projects.

[The information follows:]



ARCHIVES II FACILITY

Senator DECONCINI. All of this? This one, too?

Dr. WILSON. That is correct.

Senator DECONCINI. Is that part of it, too?

Dr. WILSON. Yes, sir.

Although the transaction, the financing of the building, is reflected in this budget, we will not require appropriations to begin paying the annual installments until fiscal year 1994.

NATIONAL HISTORICAL PUBLICATIONS AND RECORDS COMMISSION

This year, after 9 years of not submitting a funding request for the NHPRC grant program, we requested \$4 million for grants. In fact, this is nearly \$1 million less than the appropriated in last year's fiscal year 1990 budget and a full \$6 million less than that authorized by legislation. The positive aspect is that it represents an important step in recognizing the role of the program in preserving the Nation's heritage.

While the grant recipients and the broader historical community believe that much more is needed and required to effectively carry out the program, we all agree that returning this program to the normal budget process is at least a positive step toward ensuring the Commission's work and that it receives its much needed support.

ELECTRONIC RECORDS

In addition, our fiscal year 1991 request emphasizes a very important area which now needs to be addressed, and that is electronic records. NARA is not adequately equipped to handle this responsibility and the various responsibilities brought on by the ever-increasing use of various electronic media through the Federal Government.

Resources are urgently required to prepare for numerous electronic technological differences that we encountered. Specific areas include the transfer of electronic records to NARA and approving record availability and preservation. We are working very closely with the National Academy of Public Administration in developing further knowledge and insights into this issue Governmentwide.

OTHER INCREASES

Other important activities are also reflected in our request, including increases of \$180,000 to aid in the preservation and conservation of the regional archives newly accessioned records; \$700,000 required to prepare for the release of the 1920 population census; \$1.7 million for the Franklin D. Roosevelt Library renovations; and \$400,000 to move the Reagan Presidential materials to the new library.

Let me briefly highlight the request for the census funding and the Roosevelt Library.

1920 POPULATION CENSUS

The release of the 1920 census scheduled for the spring of 1992 is eagerly being anticipated by the 20 million active genealogists in the United States today. This is a significant constituency by anyone's standards.

In order to ensure the timely release of the census, the National Archives is requesting \$700,000 to copy the approximately 10,600 microfilm rolls which are to be supplied to all 12 regional archive offices, as well as in the Washington, DC, research room, and to procure adequate storage equipment for the microfilm.

ROOSEVELT LIBRARY

The other area I would like to touch on is the Roosevelt Library request—the FDR Library—the oldest of the eight Presidential libraries. It was built in 1940. It is in urgent need of repair to the roof and foundation. Other improvements need to be made in the ticket sales office to provide accommodation for handicapped visitors, and for sidewalks and parking lot improvements.

OTHER INCREASES/DECREASES

Other changes include increases of \$930,000 for program restorations to offset reductions necessary to fund that portion in the 1990 grants program, for which no funds were provided; \$1.5 million for rent rate changes; \$618,000 for the increased cost of goods and services; \$600,000 for building operation and maintenance; and \$538,000 for the annualization of the 1990 pay raise. These increases are offset by decreases of \$4,930,000 for the Herbert Hoover Library and Museum alterations, and \$930,000 from the 1990 grants program level.

PAY RAISE ABSORPTION

Finally, I would like to mention one other matter. The committee staff brought to our attention that the National Archives was the only agency under the committee's jurisdiction which did not request funds for 50 percent of the fiscal year 1991 general and SES pay raises. We were unaware when the budget was submitted that agencies were permitted to do this.

After discussions with OMB, we learned that, due to an oversight on the part of OMB, NARA was not notified to include these funds. Consequently, we are shown as having to absorb the entire amount.

Our base level of funding has eroded nearly \$5 million in recent years due to pay raise absorptions. Therefore, we believe that we can ill afford to absorb the entire 1991 pay raise. Consequently, I have submitted a budget amendment to OMB in the amount of \$879,000 to correct this oversight.

Thank you for the opportunity to make this statement, Mr. Chairman. I will be happy to respond to questions.

PREPARED STATEMENT

Senator DeCONCINI. Thank you, Dr. Wilson. We have your prepared statement which will be made part of the record.

[The statement follows:]

STATEMENT OF DON W. WILSON

Mr. Chairman and members of the Committee, I am Don Wilson, Archivist of the United States, and I am pleased to have this opportunity to appear before the Committee to present the National Archives and Records Administration's [NARA] 1991 appropriation request. I have with me today Ms. Claudine Weiher, Deputy Archivist, and Mr. James Megronigle, Assistant Archivist for Management and Administration.

As NARA nears its fifth anniversary as an independent agency, its continuing primary activity is to preserve the nation's cultural heritage and make available the documentary record of our national government. To accomplish this, NARA is responsible for the appraisal and disposition of Federal records and the management, preservation, description, arrangement, and availability of those records of permanent value.

Besides the various locations within the National Capital area housing NARA activities, NARA has an additional 11 field branches. Through these facilities, NARA is able to carry out its archival functions and make the Nation's records of enduring value available for research by the Federal Government, scholars, and the general public.

Also, NARA operates a system of 14 Federal records centers where non-current Federal records are stored and serviced economically for Federal agencies until eligible for disposal or transfer to the National Archives. Each year this program results in substantial cost savings for the government by removing records from expensive agency office space to low cost space provided by the records center system, and by carrying out an active and effective records disposition program.

NARA is responsible for publishing administrative regulations, the laws, and Presidential documents, in the *Federal Register*, and related publications. NARA makes available to the general public all of the significant rulemaking documents of the Executive Branch.

Also, NARA reviews for declassification security classified, permanently valuable records and historical materials in accordance with Executive Order 12356 and the Freedom of Information Act.

To supplement and enhance NARA's operation and response to its responsibilities, additional funding is being requested in the areas of preservation, electronic records, and for preparation for the release of the 1920 population census.

Beginning this year and continuing through 1991, the regional offices are expected to acquire substantial quantities of older textual records from substandard agency space. Funding is required to support the preservation and conservation of these newly accessioned records.

Also, we are requesting funds for enhancement of our ability to store electronic records. NARA is not adequately equipped to handle its responsibilities brought on by the ever increasing and varied electronic medias used throughout the Federal Government. Resources are required to prepare for the numerous electronic technological differences we encounter. Specific areas targeted are the transfer of electronic records to NARA, and improving record availability and their preservation.

Funds are requested to prepare for the release of the 1920 Decennial Population Census in the Spring of 1992. NARA must copy approximately 10,600 microfilm rolls, which are to be supplied to all 11 regional offices and the Washington, DC research rooms. Furthermore, storage equipment must be procured to house the microfilm.

PRESIDENTIAL LIBRARIES

NARA also administers the system of Presidential libraries where papers and historical materials of American Presidents and their associates are preserved and made available for research. Each year a large number of visitors view significant historical materials displayed in major exhibits in the Presidential libraries. In addition, Presidential materials are administered by NARA pending the establishment of Presidential libraries. At the present, archival personnel are processing records for research usage at the future Ronald Reagan Library.

Funds are being requested for the renovation of the Franklin D. Roosevelt Library. The Roosevelt Library is the oldest of the eight Presidential libraries, and is in need of major repairs to the roof and foundation. Furthermore, other improvements need to be made to the ticket sales office, accommodations for handicapped visitors, and the sidewalk and parking lot areas.

Funds are also requested to move approximately 50,000 cubic feet of Presidential records and audiovisual materials, including a computer system, and office furniture and equipment, to the site of the new Reagan Library, which is scheduled to open in February, 1991. Currently, records are being stored at two sites in Southern California; and the audiovisual collection is being held in the Washington, DC area.

NATIONAL HISTORICAL PUBLICATIONS AND RECORDS COMMISSION

The National Historical Publications and Records Commission is an organization under the auspices of NARA which reviews and recommends project grants to Federal and state governments, and private non-profit institutions, chiefly universities and research libraries. It makes plans, estimates, and recommendations for the publication of important historical documents, and works with various public and private institutions in collecting, editing, and publishing papers significant to the history of the United States.

The grants program has been reauthorized through 1993 as a result of Public Law 100-365. This action authorizes funding of \$8,000,000 for 1990 and \$10,000,000 each year from 1991 through 1993. NARA is requesting an appropriation of \$4,000,000 in 1991, which is \$1,000,000 less than the \$5,000,000 which Congress appropriated in 1990.

ARCHIVES II FACILITY

Public Law 100-440 (102 Stat. 1743-44), the NARA appropriation section, provided authorization for the construction of a new archival facility. The authorizing language permitted the Archives to enter into a contract for construction and related services either by lease or by installment payments payable out of annual appropriations over a period not to exceed 30 years.

An installment sale and trust agreement was entered into as of July 1, 1989 by and between the United States Trust Company of New York and the National Archives and Records Administration. Under terms of this agreement, the trustee obtained financing for the construction of the Archives II facility through the sale of certificates representing proportionate shares of ownership in installment payments to be made by the Archives.

Groundbreaking for the Archives II facility, to be located at College Park, Maryland, occurred on October 17, 1989 and construction is currently ahead of schedule. NARA staff are preparing for this move by accelerating preservation of the records to be moved and are preparing master relocation registers to maintain physical control of the records.

CHANGES FROM 1990 APPROPRIATED FUND LEVEL

NARA's request of \$128,000,000 is a net increase of \$3,160,000 over the 1990 appropriation of \$124,840,000.

The overall appropriation request includes increases of \$180,000 to aid in the preservation and conservation of the regional archives newly accessioned records; \$848,000 to support the electronic records program; \$700,000 required to prepare for the release of the 1920 Decennial Population Census; \$1,700,000 for Franklin D. Roosevelt Library renovations; and \$400,000 to move Reagan Presidential materials to the new library.

Other changes include increases of \$930,000 for program restorations to offset the reductions necessitated to fund that portion of the 1990 grants program for which no funds were provided; \$1,502,000 for rent rate changes; \$618,000 for the increased cost of goods and services; \$1,604,000 for building operation and maintenance; and \$538,000 for the annualization of the 1990 pay raise.

These increases are offset by decreases of \$4,930,000 for the Herbert Hoover Library/Museum alterations and \$930,000 from the 1990 grants program level.

SUMMARY

This budget is basically a continuation of programs at the 1990 level and is intended to enable us to carry out our basic mission. Except for increases to fund the Roosevelt Library renovation, the preservation and conservation of regional records, the support of the electronic records program, preparation for the release of the

1920 Decennial Population Census, and the move of Reagan materials to the new library, the request represents our assessment of resources necessary to continue the ongoing programs which are NARA's mandated responsibilities.

Thank you for the opportunity to make this statement, Mr. Chairman. I will be pleased to respond to your questions.

PAY RAISE ABSORPTION/1991 AMENDMENT

Senator DeCONCINI. Well, you answered my first question on your absorption. OMB made the mistake. In your opinion, did they have a chance to correct it before they sent it up here?

Dr. WILSON. Well, we found out about this last week.

Senator DeCONCINI. Just last week?

Dr. WILSON. Just last week.

Senator DeCONCINI. Do you think they are prepared to make a correction? We'll ask them when they come.

Dr. WILSON. We hope this will be done.

Senator DeCONCINI. Maybe you can ask them to do that.

Ms. WEIHER. Actually, the amendment is at OMB.

Dr. WILSON. We have sent OMB the budget amendment.

Senator DeCONCINI. You have sent up the budget amendment?

Ms. WEIHER. Yes; the day after we talked to your staff.

Senator DeCONCINI. And you don't know what they are going to do.

Dr. WILSON. No; they haven't told us.

ARCHIVES II FACILITY

Senator DeCONCINI. Your fiscal year 1991 budget justification, Dr. Wilson, contains some confusing information relating to the outlays associated with Archives II. The Congress approved the bill language authorizing lease or installment payable out of annual appropriations over a period not to exceed 30 years, for the payment of the purchase price and associated costs, which shall not exceed \$205 million plus escalation, to the midpoint of construction, and reasonable interest thereon. Those are quotes from our fiscal year 1989 appropriations act.

The budget authority shown in the present budget is \$301.7 million in fiscal year 1989 and zero in fiscal years 1990 and 1991. Outlays associated with the project, however, are being displayed in the President's budget at \$80.1 million in fiscal year 1990 and \$108.8 million in fiscal year 1991.

Your justification goes on to state that appropriations of approximately \$29 million are required beginning in 1994, for 26 years, in order to make semiannual payments to the certificate holders.

The Congress, at least this Senator, thought it had fully funded the cost of this project or quite frankly we would never have done what we did. Why is the adjusted \$301.7 million shown in the President's budget insufficient to cover the cost of the project and interest?

Dr. WILSON. Well, I think I'll have Jim handle the question on that; it is rather creative financing as you know, sir, and I think he can answer that very clearly.

Mr. MEGRONIGLE. Mr. Chairman, I am sure the committee is aware there has been considerable controversy on how this project

has been scored by OMB from a budget authority and outlay standpoint.

It was our intention under the authority provided by the Congress that the project would be scored over the period of years specified, and that is the way the transaction was carried out. What we have actually done is enter into a contract over a period of 30 years that will require us to repay the cost of this facility in annual installments.

What happened, however, is that OMB looked at this transaction and decided that, from their viewpoint, this constituted Federal borrowing; and, therefore, it chose to score the amount borrowed, which is the \$301,702,000, as a budget authority in fiscal year 1989 and directed us to reflect the amount that we will be paying out in 1990 and 1991 for construction and interest on the project during construction—to reflect that in 1990 and 1991 as outlays.

So we, too, are confused about what is going to happen in the future. We, obviously, will need, beginning in 1994, approximately \$29 million a year to repay this loan, to pay for this building over the duration of the contract.

I'm not sure at this point how OMB intends to score those funds, but I can say that the money reflected in this budget is not in the Treasury. It is not going to be disbursed from the U.S. Treasury.

Senator DeCONCINI. Yes; you don't know what it is going to be used for.

Mr. MEGRONIGLE. These funds are being held by the United States Trust Company of New York—the \$300 million—and will be disbursed to pay the construction cost of the facility. We are not obligated to pay anything until 1994 when the annual installments begin. So it's a little bit confusing at this point to us as well.

Senator DeCONCINI. Have you raised the issue with OMB for any explanation?

Dr. WILSON. Yes; considerably.

Mr. MEGRONIGLE. We tried to get an explanation last fall because I questioned showing the project this way and, basically, the answer was that they had decided to score it as Federal borrowing and they were going to reflect it this way.

We have not yet gotten an answer to the question as to how the payments that we have to make beginning in 1994 are going to be reflected in the budget.

Senator DeCONCINI. What is the total projected amount of interest associated with the project? Do you know?

Mr. MEGRONIGLE. The interest payment during the construction period is \$106 million. Now that represents the first 4 years or first eight semiannual payments.

Senator DeCONCINI. Starting?

Mr. MEGRONIGLE. It began this past March 1 and will continue through August 1993. Those are just interest payments. Then beginning in March 1994, we will be required to pay the principal and interest, and amortize the entire loan over 26 years. Those are the payments of \$29 million per year, approximately. Total interest included in installment payments is approximately \$451.6 million.

Senator DeCONCINI. I sure don't know what to do about it either. It puts the committee in a very bad position. I don't want to go so far as to say it jeopardizes the project, but it sure throws a differ-

ent light on it from the committee's point of view, having to be scored for that; we will take it up with OMB not only for you, but for ourselves.

SUBMITTED QUESTIONS

Mr. Wilson, I have a lot of other questions here I will submit to you, and you can respond to them in the next few weeks or as your time is concerned.

Thank you very much for being here.

Dr. WILSON. Thank you.

Ms. WEIHER. Thank you.

Mr. MEGRONIGLE. Thank you.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

ARCHIVES II

Senator DeConcini: Under normal situations, outlays for a project of this nature would accrue when reimbursements were made to GSA to repay the actual construction amounts over a 30-year period. Can you explain why outlays are being displayed in larger than normal amounts in fiscal years 1990 and 1991; why the principal cost of this project rose to \$301.7 million; and why future funding requirements are needed to make semi-annual payments to certificate holders?

Dr. Wilson: The Office of Management and Budget is scoring the funds as Federal borrowing. The amount borrowed, \$301,702,000 is shown in the 1989 column of the budget because that is when the contract with U.S. Trust was signed, and the estimated expenditures to be made in 1990 and 1991 to pay interest to certificate holders and the costs of construction are shown as outlays.

Prior to February 1994, installment payments to certificate holders will be made from monies held by the trustee. Beginning in February 1994 the National Archives shall make 52 semi-annual installment payments of \$14,485,685 each, or a total of \$28,971,371 annually, to be provided by appropriation, which will amortize the loan of \$301,702,000. We have not received guidance from OMB as to how budget authority and outlays will be shown for the annual payments. I want to emphasize that the \$29 million per year for 26 years is the total cost to the Federal government to purchase the building. This amount is not in addition to the funds shown in the budget which are actually held and expended by the U.S. Trust Company on behalf of the project.

[Further information follows:]

Archives II Facility Financing

Amount authorized (January, 1988 estimate)	\$205,000,000
Escalation to midpoint of construction March, 1992 (4.25 years at 5 percent per annum)	<u>45,000,000</u>
Total building authorization	\$250,000,000
Additional amount borrowed (These funds plus the interest earned on all the borrowed funds, which are invested until required for construction, are used to pay the interest on the loan until completion of the building.)	<u>51,702,000</u>
Total borrowed	\$301,702,000

Senator DeConcini: What is the total projected amount of interest associated with this project?

Dr. Wilson: The total cost of the project is \$753,255,620

of which \$301,702,000 is the principle and the balance interest.

Senator DeConcini: Why is this project being scored differently than other lease purchase projects?

Dr. Wilson: The Office of Management and Budget considers the Archives II installment sale contract to be defacto Federal borrowing. We have not received guidance from OMB as to how or whether they intend to continue scoring Archives II construction and interest payments made by the U.S. Trust Company on behalf of the project as outlays in 1992 and 1993.

Senator DeConcini: What percentage of archival documents are to be transferred to the Archives II facility?

Dr. Wilson: About 68% of our Washington, D. C. area records will be transferred to the new Archives II facility, or roughly 1,000,000 cubic feet of material. Modern military records, all audiovisual, cartographic and architectural records, and civilian records, including State Department will be transferred to Archives II. The records to be transferred are currently located in a number of locations in the Washington, D.C. area, not just the main Archives building. Records being left in the main Archives building will be about 495,430 cubic feet.

Senator DeConcini: Which documents will remain in the main Washington, D.C. facility?

Dr. Wilson: The textual records relating to genealogical researchers, including land patent application files and records of the War Relocation Authority, will remain in the National Archives Building. In addition, records of the legislative and judicial branches of the Federal government, American Indian-related records, old army records (cut off roughly at World War I), and all navy records will remain in the National Archives Building.

Senator DeConcini: Your justification states that construction of the Archives II facility is expected to be completed in October of 1993. When will the relocation of documents from the D.C. location to Maryland take place?

Dr. Wilson: Construction is on schedule and we anticipate moving into the building starting in January 1994.

LEGISLATIVE ARCHIVES DIVISION

Senator DeConcini: Dr. Wilson, Chairman Byrd has long had a strong interest in the preservation of the Legislative Archival files. I am sure he and the Secretary of the Senate, Joe Stewart, have had discussions with you about the needs of the Center of Legislative Archives. I have several questions that I will submit to you on behalf of Chairman Byrd and I hope you can get answers back to us as quickly as possible. What are you doing to build expertise and continuity within the Archives staff who handle the records of the Congress?

Dr. Wilson: We have at the National Archives a general two year training program for all professional archivists. This program exposes new archivists to the full range of archival work at the National Archives. We also provide formal training for archives technicians. Within the Center for Legislative Archives, we have a special cross-training program for our reference staff to share knowledge of the history and records of Congress. During 1991 we intend to enhance that training program by assigning individual staff to do in-depth research relating to specific bodies of Congressional records. Each staff member will then prepare a brief report summarizing his or her research and will conduct a tutorial session for fellow staff members.

Senator DeConcini: As the Archives prepares to move many of its other collections to the new building in College Park, what are your specific plans for housing and preserving the records of Congress?

Dr. Wilson: The construction of and move to Archives II has understandably required a great deal of attention at the Archives. Nevertheless, it is my intention at the conclusion of this project to begin a plan to renovate the National Archives Building. In this way we shall provide much improved office, stack, and work space for those who are responsible for the records of Congress, and we will enhance our public use space to allow the exhibition of more records in our custody. In addition, we will continue the highly professional program of holdings maintenance and conservation treatment now underway. The restoration work of early Senate and House journals currently in progress is but one example of the emphasis placed on the valuable records of Congress.

Senator DeConcini: What is the Archives doing to ensure that Congressional committees receive reliable and expeditious assistance in the transfer and the retrieval of their official records?

Dr. Wilson: We have recently reaffirmed a policy setting a forty-eight hour requirement for the transfer and retrieval of records. As a backup to the Archives' courier service, two members of the staff of the Center for Legislative Archives have recently received government operator's licenses. In emergencies they will now be able to transport small quantities of records.

NATIONAL HISTORICAL PUBLICATIONS AND RECORDS COMMISSION

Senator DeConcini: I am pleased to see that \$4 million has been included in your fiscal year 1991 request for grants from the National Historical Publications and Records Commission. While this amount is \$930,000 below the fiscal year 1990 level and \$6 million below the authorized level, I believe this is the first time in many years that your budget has included funds for this program. Does this change signal a shift in Administration policy with respect to the National Historical Publications and Records Commission, and, if so, can we expect future funding requests from the Administration for this program?

Dr. Wilson: The Commission is very pleased to note the Administration's support for the grant program in the

President's 1991 budget. It is also grateful for the support received from the Congress during the nine years when the Administration did not include the grant program in the President's annual budget. The Commission is now hopeful that future funding requests from the Administration will be keyed to the demonstrated level of need for this program to preserve and promote the use of our national historical documentary heritage.

Senator DeConcini: How many grants do you anticipate to make in FY 91 compared to the current year?

Dr. Wilson: At \$4 million, the records program and the publications program would eliminate twelve grants each.

Senator DeConcini: If the full authorized level of \$10 million were to be provided in FY 91, what research projects could be undertaken which have not been possible to date because of funding shortfalls?

Dr. Wilson: At a funding level of \$10 million, the NHPRC's records program would be able to increase significantly its grant support in several key areas. The number of grants awarded could increase to approximately eighty-eight, and the Commission could also channel additional funds into areas of special need. The most important of these is the preservation and management of electronic records, to which the Commission has voted to give special emphasis.

Additional state-based regrant projects would be supported, with an average grant of \$150,000, to channel money to local institutions in the states and to generate state and local matching funds for records programs. Other special areas that would benefit from increased funding include the work of the State Historical Records Coordinators and State Historical Records Advisory Boards, which play a vital role in fostering the development of records programs in the states, and enhancement of the records program's support for educational and research activities relating to archival administration.

With funding at \$10 million for fiscal year 1991, the Commission will be able to support the collecting, editing and publishing of the papers of the Founding Fathers--Jefferson, Madison, Adams, Franklin and Washington--and other significant American historical figures and documentary projects, such as the Documentary History of the First Federal Congress, at a level more closely reflective of their financial needs.

While the NHPRC continues to support ongoing projects, there is a need for new projects. Included are the papers of Robert A. Taft, Eleanor Roosevelt, Robert E. Lee, and James Monroe; the petitions of Blacks to Southern legislatures; the letters and writings of Japanese-Americans interned in the United States; and the letters of soldiers serving in the Armed Forces during World War II. Other projects would preserve and publish documents illustrating the early years of various immigrant groups.

Also, beyond the editorial support for these significant projects, the Commission provides subvention grants to some thirty university presses to publish and distribute these

fine volumes. With funding at \$10 million, this part of the program could be increased to \$350,000, the level currently needed to publish the volumes already prepared for publication and for their wider distribution.

Senator DeConcini: Could you provide the same information to the committee at \$6 million and \$8 million levels?

Dr. Wilson: At a \$6 million dollar level, in addition to increasing the overall number of grants made, the Records Program would be able to target approximately \$500,000 for special projects relating to electronic records.

At an \$8 million dollar level, in addition to this support for electronic records projects and general grant projects, additional state-based regrant projects, projects to support the work of the state coordinators and boards, and archival education and research activities would be supported. Furthermore, the papers of James Monroe, Robert E. Lee and the letters of soldiers serving in the Armed Forces during World War II could be supported in the area of Publications, as well as increased funding of the subvention program at a level of \$250,000.

In addition, the Commission could support the Publications projects to edit the papers of Robert A. Taft, and the petitions of Blacks to Southern legislatures.

Senator DeConcini: On the average, how many grant requests are denied each year due to funding shortfalls in this program?

Dr. Wilson: Each year between fifteen and twenty records grant requests that have been recommended by State Historical Records Advisory Boards and peer reviewers for funding are denied support because of a lack of funds.

Senator DeConcini: What impact will the reduction of \$930,000 have on this program activity in fiscal year 1991? What specific activities will not be undertaken?

Dr. Wilson: At \$4 million, the records program would make twelve fewer grants (at an average award level of \$40,000 per grant). This reduction would significantly impede the preservation of historically valuable collections in the states, and archival programs to care for these records would not be established. Additionally, the institutional matching-funds would be lost, making the total loss significantly more than the grant appropriation amount. Decreased funding would also result in the Commission's inability to support key areas such as electronic records projects and state-based regrant projects. State-based regrant projects directly benefit small institutions in the states that might not otherwise receive Federal funding.

The publications program would also make twelve fewer grants. Because of this, funds for projects to publish the papers of Thomas Jefferson, Andrew Jackson, U. S. Grant and Martin Luther King would be directly reduced if not eliminated. Given the nature of documentary scholarship, experienced staff would be lost. And, as the NHPRC funds encourage additional support from universities, historical societies and private foundations, outside funding would be

affected as well. It should be noted that for every \$40 provided by the NHPRC, an additional \$60 is provided by the other sources mentioned above.

PRESIDENTIAL LIBRARIES

Senator DeConcini: Your fiscal year 1991 budget proposes a net reduction of \$2.029 million in your Presidential libraries activities. However, because of the \$4.9 million in non-recurring costs associated with the Hoover Library alterations, you are actually proposing an increase of \$2.9 million over the FY 90 level for Presidential library activities. Of this amount \$1.7 million is requested for alterations to the Franklin D. Roosevelt Library; \$400,000 for relocation of records to the Reagan Library site in California; and the remainder for increased operations and maintenance costs associated with all of the 8 Presidential libraries. Can you tell the committee what specific activities you have planned in fiscal year 1991 for the repair and alteration project at the Roosevelt Library and what benefits to the public will be realized once this project is completed?

Dr. Wilson: The Roosevelt Library was built in 1940 and is the oldest of the Presidential libraries. The repair and alteration project at the Roosevelt Library includes major repairs to the roof and foundation, space alterations, improvements to the sidewalks, roadway, and parking lot, and landscaping.

The benefits the public will realize will be more adequate space for ticket sales, accommodations for handicapped visitors, additional parking, and a safer and more efficiently operated building for public visitation to the library and museum.

Senator DeConcini: Is \$1.7 million the total amount needed to upgrade this Presidential library?

Dr. Wilson: The \$1.7 million does not represent an upgrade of the Roosevelt Library. It is simply to provide essential repairs and alterations. To upgrade the library would require an additional \$3.3 million.

REAGAN LIBRARY

Senator DeConcini: In FY 91 you are requesting an additional \$400,000 to relocate Reagan materials to the permanent library site in Simi, California from temporary locations in Southern California and Washington, D.C. Your justification states that this amount also includes the costs to transport computers and furniture to the Reagan Library, which is due to open in February of 1991. Is this \$400,000 the total remaining cost associated with the move of materials to the permanent Reagan Library site or will there continue to be future moving costs associated with this project?

Dr. Wilson: The \$400,000 is an estimated cost for moving records, furniture, and equipment, from temporary storage sites to the permanent library building. As is true with all Presidential libraries, the Reagan Library will continue

to acquire historical materials. These acquisitions are usually small, such as a few boxes per donor, and the cost of transporting them to a library is minimal. Those types of shipments are considered to be a normal part of doing business and are paid for from our operating budgets.

Senator DeConcini: With the proposed '91 increase for this project, what will be the total amount spent by the Archives for the Reagan Library?

Dr. Wilson: Costs from 1988 through 1991 total \$7,101,000.

Senator DeConcini: How does this amount compare to the total costs expended to date for the initial operational capability of other Presidential libraries?

Dr. Wilson: We have compared these costs to the two previous libraries that opened before the Reagan Library which were Ford and Carter.

The Ford Library and Museum, started in 1977, opened in 1981; the total costs during that time were \$2,428,000. The Carter Library, started in 1981, opened in 1986; the costs were \$3,898,000.

The Reagan startup costs are higher than the Ford and Carter Libraries because of the volume of material that had to be transported and stored is for an eight year administration; the transportation distance was greater; a full staff was needed sooner because materials must be processed in 5 years under the Presidential records act; and, materials and staff are in two temporary locations as opposed to one location. In addition, the Ford materials were stored at the University of Michigan which provided space and building services at minimal costs or substantially below market value. Once the library is up and running, the annual operating costs will be similar to other larger libraries.

Senator DeConcini: Are you planning an opening celebration associated with this Library? If so, when?

Dr. Wilson: The National Archives is not planning such a ceremony. The Reagan Presidential Library Foundation Inc. is constructing the library and it is they who are planning an opening ceremony. At this time, they plan to dedicate the library on February 9, 1991.

Senator DeConcini: Your justification states that the total volume of Reagan materials is 50,000 cubic feet. How does this volume compare to the other Presidential libraries?

Dr. Wilson: It is considerably more. In fact, it is more than twice the size of the Johnson Library, the largest Presidential library collection, and about twice the size of the Nixon papers.

HOOVER LIBRARY

Senator DeConcini: Can you provide the committee with an update on the repairs and alterations project which the Congress funded in fiscal year 1990 associated with the

Hoover Library? How far along are you and when do you expect to complete this project?

Dr. Wilson: The project is in the design stage with completion design submission scheduled for October 20, 1990. We expect to complete construction in May 1992 and dedicate the facility in August 1992.

PRESNET

Senator DeConcini: Your budget justification states that funds are included in your FY 1991 budget for the Presidential library automation project known as Presnet. What is the total amount of funds included in the '91 budget for the project?

Dr. Wilson: Our requested increase of \$848,000 for electronic records includes \$100,000 for Presnet. The total amount of funds included in the 1991 budget for Presnet, however, is \$285,000.

Senator DeConcini: Is this amount the total needed for this project or can the committee expect future funding requests?

Dr. Wilson: As the project expands to include additional libraries, we may need to request additional resources.

WORKLOAD FACTORS

Senator DeConcini: Your projected workload associated with the Presidential libraries is expected to decline in fiscal year 1991 by 4½ in arrangements; 13½ in units preserved; and 41½ in acquisitions. How do you explain this workload reduction in these activities for fiscal year 1991?

Dr. Wilson: The reductions you noted can be attributed to our acquisition of the records of the Reagan administration.

The large increase in acquisitions in 1989 reflects the transfer of most of the official records of the Reagan administration to the National Archives. We have continued to receive additional records during 1990. The resources of the Reagan Presidential Materials Staff have been directed toward preliminary preservation and processing (arrangement) of these materials, causing a temporary increase in the workload items.

In 1991, the focus of that staff will be directed toward preparing for and accomplishing the move of the materials from three temporary storage facilities to the permanent library building, and to becoming established in the new facility. While they will routinely acquire additional materials and perform preservation and arrangement work on the records, the workload level for these specific activities in will drop until 1992 when the library is fully operational.

Senator DeConcini: Why aren't positions associated with these activities being reduced as a result of a workload reduction?

Dr. Wilson: The positions associated with the decline in these specific workload items are at the Reagan Library. described earlier, they will be working on the move to the permanent library.

1920 DECENNIAL POPULATION CENSUS

Senator DeConcini: You are requesting an increase of \$700,000 and 5 FTEs for release of the 1920 Decennial Population Census in 1992. What specific activities need to be undertaken in fiscal year 1991 to prepare for the release of the census documents?

Dr. Wilson: The 1920 Census is scheduled for release in the spring of 1992. The records are contained on approximately 10,600 rolls of microfilm. During 1991, we will purchase and install 238 storage cabinets in Washington, DC, and in the 12 regional archives. We will also complete the duplication and shipment of the 12 reference copies of all 10,600 rolls. One set for each regional archives and the Washington, DC, research rooms will be prepared.

Senator DeConcini: When released, what impact will the availability of this information have on your workload requirements?

Dr. Wilson: The impact will be a dramatic increase in the reference workload. About 70% of the researchers who use the Archives are doing genealogical research, so the availability of the 1920 census will generate interest from nearly three-quarters of our researchers.

ELECTRONIC RECORDS STORAGE

Senator DeConcini: In fiscal year 1991 you are requesting an increase of \$848,000 and 8 FTEs for storage of electronic records. What types of electronic records are you presently receiving, how are they being stored, and how will this increased funding enhance your storage capabilities?

Dr. Wilson: In accordance with the current Federal Property Management Regulations, we accession electronic records only on traditional magnetic tape in what is termed hardware and software independent formats. The computer tapes are stored in temperature and humidity controlled vaults. According to a periodic schedule, they are cleaned and rewound. The datasets must be copied regularly on to new tapes to ensure that the data remains intact. The records I am describing are traditional large computerized datasets. These files include such databases as the Vietnam Combat Area Casualty File which was used to produce the list of names appearing on the Vietnam Memorial wall. We have the technology to provide for the continued preservation and retrieval of this type of electronic record.

In the future our most significant problems will arise from non-traditional electronic records. A recent study, "The Effects of Electronic Recordkeeping on the Historical Record of the U.S. Government," conducted for us by the National Academy of Public Administration (NAPA), suggests that the National Archives has a window of opportunity right now regarding new office automation technologies and their

applications in Federal agencies. The first transfer of a full text file is scheduled for 1993 when the Department of State turns over to the National Archives the electronic telegrams from the Foreign Affairs Information System. Other problems will arise with storage and retrieval of complex scientific data such as digital cartography.

The additional funding and FTE requested for electronic records activities are needed to initiate or enhance several programs in the National Archives. Resources are required to establish effective archival control, preservation, and reference service for all the National Archives growing machine-readable holdings and to provide adequate computer resources and expertise to begin to deal competently with the very diverse, large and complex technical issues posed by electronic records created and maintained by Federal agencies. A portion of the request is needed to develop agency-wide information systems with data about records in the custody of other Federal agencies, the Federal records centers, and the National Archives to track records through their life-cycle and ensure their timely transfer to the Archives. Finally, resources are requested to continue research in alternative preservation and accessing technologies.

PRESERVATION

Senator DeConcini: Your justification states that a 1983-84 study by the National Bureau of Standards identified long-term conservation needs. You further state that as a result of the study, the National Archives developed a systematic preservation plan to eliminate the backlog, but due to the fact that annual funding requirements to implement the preservation plan were not provided, you are revising the preservation plan to develop more economical alternatives. When were funding requests for this activity made, how much were the requests and were they denied by OMB or diverted to other activities due to Congressionally directed absorptions?

Dr. Wilson: Funding requests in accordance with the preservation plan were made in 1984 after the plan was developed. The recommended funding levels for 1984 through 1986 were \$6,415,000, \$5,585,000, and \$8,585,000 respectively. These amounts were approved by OMB at \$4,440,000, \$5,585,000 and \$8,585,000 respectively and included in the Presidential budgets for those years. The 1986 approved level was subsequently reduced by \$1.5 million to \$7,085 million as a result of a Gramm-Rudman-Hollings reduction. A recommended level of \$11,245,000 for 1987 was reduced by OMB to \$7,000,000. Subsequent increased funding requests directly related to the preservation plan have not been made.

Other preservation requests not associated with the 20-year plan were made in 1990 and 1991. The amounts were \$1,577,000 and \$6,914,000 respectively. These requests were also denied by OMB.

Senator DeConcini: What impact has this had on the deterioration of documents?

Dr. Wilson: The short-term impact on paper documents is negligible unless the document is used by a researcher. For that reason, our document conservators are currently conducting a preservation survey of a statistical sample of textual records used by researchers or reproduced for researchers during 1987, 1988, and 1989. Once the physical evaluation is complete, we will be able to revise our long range preservation plans.

Senator DeConcini: Can we expect a fiscal year 1992 request to fund your revised preservation plan?

Dr. Wilson: Yes, we expect to be ready to address our preservation needs beginning in 1992.

Senator DeConcini: What is the current preservation backlog and what amount of funding and positions are necessary to eliminate this backlog?

Dr. Wilson: The current preservation backlog includes 97 million pages of frequently used papers and 52 million pages of rapidly deteriorating 1940s and 50s Thermofax, Mimeograph, and others made from pre-xerox methods that need to be copied; 13 million pages need intensive laboratory treatment; and 1.1 million cubic feet of holdings need rehousing in acid-free containers. The latter is of immediate concern because of the move to Archives II.

We estimate that an annual FTE of 198 would be required at the \$11,245 million level. This is still a good estimate.

ARCHIVAL ACCESSIONS

Senator DeConcini: You have requested \$700,000 and 5 FTEs for accessioning regional archival records in fiscal year 1991. Can you provide further information on this project and tell the committee what the total funding requirements are to complete this project?

Dr. Wilson: We requested \$180,000 and 5 FTE for accessioning regional archives records. During 1989 and 1990 our regional archives staff has been actively seeking out records which should have been transferred to National Archives custody but have been retained by various federal agency regional program offices. As a result of this aggressive program, in 1990 and 1991 the regional archives will accession substantial quantities of older records, generally 60 to 110 years old. Many of these accessions include oversized maps and architectural plans and drawings which require special care. The current program calls for increased agency visits in the eleven regions and in the state of Alaska through FY 1993 followed by an ongoing program of periodic visits to key regional program offices to ensure timely transfer of permanently valuable records to the National Archives in the future.

The program will require continued support for the requested 5 FTE in 1991 and an additional 22 FTE and \$660,000 in 1992 devoted to preservation activities resulting from increased accessioning.

ARCHIVES GIFT FUND

Senator DeConcini: Obligations associated with the Archives Gift Fund are expected to increase to \$1.216 million in fiscal year 1991. The largest increase in activities will be those associated with the Presidential libraries, where gifts are expected to increase to a total amount of \$921,000. Can you please provide the committee with a complete listing of projects and activities to be funded from gifts in FY 91 and also specify if the gifts were earmarked for specific purposes by the donors?

[The information follows:]

Library Gift Fund Projects for 1991

1. Truman Library - \$250,000 for design, fabrication, and installation of new exhibits as a part of their museum renovation program. Funding from undesignated gifts deposited in their gift fund over a number of years.
2. Eisenhower Library - \$36,500 for activities commemorating the Centennial of Eisenhower's birth in October 1990. The Library has received some funds designated for this purpose. Any additional costs will be from undesignated funds.
3. Kennedy Library - \$600,000 for design, fabrication, and installation of new exhibits as a part of their museum renovation program. This amount is their entire gift fund budget for FY 1991. Funding from undesignated gifts deposited into their gift fund over a number of years.
4. Ford Library - \$4,500 for events commemorating the 10th anniversary of the library. Funding from undesignated gifts deposited into their gift fund over a number of years.

 QUESTIONS SUBMITTED BY SENATOR KERREY

GRANTS

Senator Kerrey: Your request for the state grant program is \$5 million -- a million less than Congress appropriated last year. What is the justification for the reduction?

Dr. Wilson: Our fiscal year 1991 grant request of \$4 million is based on the President's recommendation.

Senator Kerrey: What grants were made to Nebraska in 1989 and 1990 under this program?

Dr. Wilson: During 1990 a records grant of \$23,166 was awarded to the Nebraska State Historical Society to preserve its McDonald Photographic Studio Collection. This was the only records grant request received during 1989 and 1990 from Nebraska.

No publication grants were made in fiscal years 1989 and 1990.

Senator Kerrey: Please list the principal programs being funded under the state grants portion.

[The information follows:]

NATIONAL HISTORICAL PUBLICATIONS AND RECORDS COMMISSION

State Grants, April 1990

National Projects

Society of American Archivists, Chicago, IL: \$20,000 to continue the work of the society's Committee on Goals and Priorities (CGAP) for two years. CGAP will undertake assessment, planning, and consensus building activities, including planning and fundraising for a National Congress on Historical Records to take place in 1987. (87-042)

Society of American Archivists, Chicago, IL: \$56,400 to publish seven new "Archival Fundamentals" manuals. Topics will include archives in society, acquisitions and appraisal, arrangement and description, preservation management, reference and access, administration of archival repositories, and a glossary of archival terms. (88-059)

National Recreation and Park Association, Alexandria, VA: \$53,121 for a two-year project to establish a records management program for NRPA records and to complete the processing of its pre-1965 records located at the Social History Welfare Archives of the University of Minnesota. (88-060+)

American Institute of Physics, New York, NY: \$80,000 for a two-year project jointly funded with the National Foundation of Science to analyze patterns of work in multi-institutional scientific collaborations, define the problems of preserving documentation of these activities, test possible solutions, and recommend future actions. (88-072)

National Association of Government Archives and Records Administrators, Sacramento, CA: \$106,450 for a national project to develop an archival preservation planning tool for use in state and local government archives and other archival institutions. Products to be created include self-survey materials for repositories and a preservation planning resource notebook. (88-104)

Harvard University, Cambridge, MA: \$51,980 to assess the current status of archival descriptive standards, identify standards that need to be developed, prepare a handbook of practical information about standards, and address other issues relating to standards development and implementation. (88-105+)

Society of American Archivists, Chicago, IL: \$34,400 for the final year of a three-year program of the SAA education office to sponsor continuing education for mid-career archivists. (89-014)

Image Permanence Institute, Rochester Institute of Technology, Rochester, NY: \$60,239 to continue research into the use of sulfiding treatment to protect microfilm, negative duplicating film, and archival prints against oxidation deterioration ("redox blemishes" or "red spots"), even when stored under adverse conditions. (89-042)

National Association of Government Archives and Records Administrators, Sacramento, CA: \$1,955 for a project to evaluate local government records projects that have received grant funding from NHPRC. (89-045)

Research Libraries Group, Mountain View, CA: \$385,697 to expand the database of descriptions of public records in its Research Libraries Information Network (RLIN). Participants are 6 state archives (Georgia, Kentucky, Oregon, Massachusetts, Nevada, Virginia), the District of Columbia Archives, and the Georgia Historical Society. (89-046+)

Immigration History Research Center, University of Minnesota, St. Paul, MN: \$18,000 to support a conference on The Immigrant Experience in America. The project is funded jointly by the NHPRC Records and Publications Programs and The Statue of Liberty-Ellis Island Foundation. (89-059*)

South Carolina Department of Archives and History, Columbia, SC: \$54,501 for a national meeting of the State and Territorial Historical Records Coordinators and meetings of the State Coordinators' Steering Committee, and to convene a group to assess the mission and structure of the coordinators' organization and the role of the steering committee. (89-084)

Association for Information and Image Management, Silver Spring, MD: \$10,945 to produce a technical report which will provide guidelines for government archives in the use, backup, and application of digital optical imaging systems used for the storage of public records. (90-003)

American Council of Learned Societies, New York, NY: \$3,500 for a meeting of the Advisory Group for "America's Documents-America's History: The Historical Documents Study. Funded jointly by the NHPRC Records and Publications Programs, the study will examine historical research practices in the United States. (90-028*)

The Regents of the University of California, Berkeley, CA: \$199,623 for a project, to be conducted by the Bancroft Library in cooperation with the Sierra Club, to develop records management guidelines for the club's national, regional, and chapter offices, and to process the records of the club that have already been accessioned by the library. (90-032)

American Mathematical Society/Brown University, Providence, RI: \$56,383 to establish an ongoing records management program for the society and to transfer records of permanent historical value to Brown University's Archives for Mathematics and Mathematicians. (90-033)

Massachusetts Eye and Ear Infirmary, Boston, MA: \$152,787 to prepare a publication on the functional and institutional components of the U.S. health care system, with additional information on documentary issues and problems specific to these functions and institutions. (90-037)

Jewish Theological Seminary of America, New York, NY: \$112,590 to collect and make accessible an estimated 2,100 feet of historical records of Conservative Judaism in America. (90-059)

National Association of Government Archives and Records Administrators, Sacramento, CA: \$10,510 to hold a two-day invitational conference of archivists and information resource management officials to identify and address key issues in ensuring the availability of historically valuable records in electronic formats and to establish a framework for analysis, and action. (90-063)

PUBLICATIONS PROGRAM

University of Arizona, Tucson, AZ
Documentary Relations of the Southwest
Grant No. 90-051 \$30,000
Grant No. 89-040 \$27,000

Claremont Graduate School, Claremont, CA
Salmon P. Chase Papers
Grant No. 89-050 \$61,000
Grant No. 89-092 \$20,400

University of California, Los Angeles, CA
The Marcus Garvey Papers
Grant No. 90-043 \$37,000

University of California, Berkeley, CA

Emma Goldman Papers

Grant No. 90-005 \$80,000

Pomona College, Claremont, CA

Correspondence of Charles Sumner

Grant No. 90-029 \$36,500

Yale University, New Haven, CT

Benjamin Franklin Papers

Grant No. 89-063 \$70,000

George Washington University, Washington, DC

First Federal Congress Papers

Grant No. 89-012 \$129,000

Grant No. 90-009 \$170,000

Grant No. 90-207 \$5,000

The American University, Washington, DC

Daniel Chester French Papers

Grant No. 90-011 \$70,000

Papers of Frederick Law Olmsted

Grant No. 89-070F \$20,400

American Historical Association, Washington, DC

J. Franklin Jameson Papers

Grant No. 89-091 \$54,000

Florida State University, Tallahassee, FL

Black Abolitionist Paper

Grant No. 90-031 \$37,500

Martin Luther King, Jr. Center, Atlanta, GA

Martin Luther King, Jr. Papers

Grant No. 89-072 \$47,000

University of Illinois, Champaign, IL

Jessie Benton Fremont Papers

Grant No. 90-006 \$27,000

University of Kentucky, Lexington, KY

Henry Clay Papers

Grant No. 90-027 \$20,000

The Johns Hopkins University, Baltimore, MD

The Dwight D. Eisenhower Papers

Grant No. 90-042 \$27,000

University of Maryland, College Park, MD

Charles Carroll Family Papers

Grant No. 90-053 \$14,000

Grant No. 87-086 \$10,000

Grant No. 87-086S \$15,170

Freedmen and Southern Society

Grant No. 90-021 \$75,000

Samuel Gompers Papers

Grant No. 89-065 \$58,000

Massachusetts Historical Society, Boston, MA

The Adams Papers

Grant No. 89-093 \$70,000

Clark University, Worcester, MA

Harmony Society Papers

Grant No. 90-046 \$38,000

University of Massachusetts, Amherst, MA

The Papers of Elizabeth Cady Stanton and Susan B. Anthony

Grant No. 90-010 \$25,000

Duke University, Durham, NC

Jane Addams Papers

Grant No. 89-83 \$1,250

Grant No. 90-040 \$47,000

Fordham University, Bronx, NY

The Diary of Elizabeth Drinker

Grant No. 90-041 \$31,000

Baruch College-CUNY, New York, NY

Papers of Albert Gallatin

Grant No. 90-008 \$49,000

Queens College-CUNY, Flushing, NY

Papers of Robert Morris

Grant No. 90-014 \$32,000

New York University, New York, NY

Margaret Sanger Papers

Grant No. 90-050 \$38,000

University of South Carolina, Columbia, SC

John C. Calhoun Papers

Grant No. 89-066 \$28,000

South Carolina Historical Society, Charleston, SC

Papers of Henry Laurens

Grant No. 90-020 \$37,500

University of Tennessee, Knoxville, TN

Papers of Andrew Jackson

Grant No. 90-047 \$44,000

Papers of Andrew Johnson

Grant No. 90-048 \$70,000

Correspondence of James K. Polk

Grant No. 89-067 \$31,000

Rice University, Houston, TX

Jefferson Davis Papers

Grant No. 89-051 \$37,000

University of Virginia, Charlottesville, VA

Papers of James Madison

Grant No. 89-064 \$70,000

George C. Marshall Research Foundation, Lexington, VA

Papers of George C. Marshall

Grant No. 90-007 \$58,000

Institute of Early American History and Culture, Williamsburg, VA

Papers of John Marshall

Grant No. 90-049 \$19,000

University of Wisconsin, Madison, WI
 Documentary History of the Ratification of the Constitution
 Grant No. 90-015 \$99,000

PRESIDENTIAL LIBRARIES

Senator Kerrey: What controls do you have/exercise on the costs of Presidential libraries?

Dr. Wilson: Presidential library staffing and resources are based on work plans submitted by each library. These plans, carefully reviewed by the Office of Presidential libraries, are the basis of the approved operating budget plans for each library. Each library is required to operate within the constraints of their budget plan. Additional controls are imposed by procedures for review of personnel actions, contract actions, and expenditures.

QUESTIONS SUBMITTED BY SENATOR DOMENICI

SEQUESTER

Senator Domenici: The fiscal year 1991 budget justification indicates two adjustments for fiscal year 1990 -- a reduction of \$1.772 million as a result of the sequester and a reduction of 18 full-time equivalent positions. For fiscal year 1990, all agencies, including the Archives, were required to absorb the cost of the January 1990 cost of living increase. Is the reduction of 18 full-time equivalent positions for fiscal year 1990 shown in the budget the result of the funding sequester?

Dr. Wilson: No. It is an adjustment that we made to transfer FTEs from direct to reimbursable based on the actual FTE used in 1989 and the projected FTEs based on our IRS workload and microfilming.

PAY RAISE

Senator Domenici: What is the total amount associated with the January 1990 pay increase which the Archives must absorb in fiscal year 1990?

Dr. Wilson: We are absorbing \$1,560,000 for the January 1990 pay increase.

Senator Domenici: How are you achieving the savings needed to meet this unfunded cost requirement?

Dr. Wilson: We are deferring certain repairs and alterations to Presidential libraries and the Archives building; also, all but immediately critical purchases are being postponed.

Senator Domenici: What is the fiscal year 1991 cost of the proposed January 1991 pay raise for the Archives?

Dr. Wilson: The cost of the proposed January 1991 pay raise for fiscal year 1991 is \$1,758,000, including the SES pay raise.

Senator Domenici: What reductions will be necessary if you are required to fully absorb this amount?

Dr. Wilson: If we have to absorb this amount, we cannot fund the positions we are authorized. About 250 FTE will remain unfunded due to this and previous pay raise absorptions. The lack of experienced personnel seriously impairs our efforts to handle the rapidly increasing accessions, reference, declassification, and preservation activities. Also, all non-critical purchases would be affected.

HOOVER LIBRARY

Senator Domenici: For fiscal year 1990, \$5 million was provided for repairs and alterations for the Hoover Library. What is the post-sequester amount available for this project in fiscal year 1990?

Dr. Wilson: The post-sequester amount available is \$4,930,00.

Senator Domenici: Will this amount be sufficient?

Dr. Wilson: Yes, it should be sufficient to complete the project. The library's foundation is contributing funds to the project as well.

Senator Domenici: What is the current schedule for completion of this project?

Dr. Wilson: Design of the addition will be completed by October 20, 1990. Construction should be completed in April 1992 with a formal dedication on August 10, 1992.

ARCHIVES II

Senator Domenici: The fiscal year 1989 Appropriations Act authorized the Archivist to enter into a contract for construction and related services for a new Archives facility in Maryland by lease or installment payments, payable out of annual appropriations for a period not to exceed 30 years. The statutory language specified that the purchase price and associated costs of this new "Archives II" facility not exceed \$205 million, plus escalation to the midpoint of construction and reasonable interest thereon.

Budget authority of \$301.7 million was scored for fiscal year 1989. The fiscal year 1991 budget reflects an outlay of \$80.1 million in fiscal year 1990 and \$108.8 million in fiscal year 1991. The budget justification indicates that the outlay amounts reflect the face amount of principle of funds invested at their maturity date and that funds will actually be outlaid when reimbursements are made to GSA to repay amounts spent on construction. The budget justification also indicates that appropriations of approximately \$29 million will be required beginning in 1994, for 26 years, in order to make semi-annual payments to the certificate holders. Would you please explain the financing agreement for the Archives II facility?

Dr. Wilson: The project was financed through the public sale of certificates of participation secured by an Installment Sale and Trust Agreement between the National Archives and the United States Trust Company of New York.

This is a 30 year contract for the purchase of the building. U.S. Trust has designated the National Archives as its agent to build the building which gives the Archives the necessary control to ensure that our special building requirements are met.

Senator Domenici: Why does the budget show outlays for this project in both fiscal years 1990 and 1991?

Dr. Wilson: The Office of Management and Budget considers the Archives II installment sale contract to be defacto Federal borrowing. Therefore, the amount borrowed, \$301,702,000 is shown in the 1989 column of the budget because that is when the contract with U.S. Trust was signed, and the estimated expenditures to be made in 1990 and 1991 to pay interest to certificate holders and the costs of construction are shown as outlays.

Senator Domenici: What outlays will be scored in each of fiscal years 1992, 1993, and 1994?

Dr. Wilson: If OMB requires the same budget presentation next year, outlays will be shown as \$111.3 million in 1992 and \$56.7 million in 1993. The installment payments begin in 1994 when the building is completed at the rate of about \$29 million per year for 26 years. We have not received guidance from OMB as to how budget authority and outlays will be shown for the annual payments. I want to emphasize that the \$29 million per year for 26 years is the total cost to the Federal government to purchase the building. This amount is not in addition to the funds shown in the budget which are actually held and expended by the U.S. Trust Company on behalf of the project.

Senator Domenici: What costs are included in the \$301.7 million in budget authority scored in fiscal year 1989?

[The information follows:]

Archives II Facility Financing

Amount authorized (January, 1988 estimate)	\$205,000,000
Escalation to midpoint of construction March, 1992 (4.25 years at 5 percent per annum)	<u>45,000,000</u>
Total building authorization	\$250,000,000
Additional amount borrowed (These funds plus the interest earned on all the borrowed funds, which are invested until required for construction, are used to pay the interest on the loan until completion of the building.)	<u>51,702,000</u>
Total borrowed	\$301,702,000

ARCHIVES II

Senator Domenici: What is the projected total cost of the Archives II facility?

Dr. Wilson: The total cost is \$753,255,620. Prior to February 1994, installment payments to certificate holders will be made from monies held by the trustee. Beginning in February 1994 the National Archives shall make 52 semi-annual installment payments of \$14,485,685 each, or a total of \$28,971,371 annually, to be provided by appropriation, which will amortize the loan of \$301,702,000.

Senator Domenici: What is the current schedule for construction of this project?

Dr. Wilson: The construction schedule runs from December, 1989 through October 1993. Clearing and grading of the site is nearly complete and we will be ready to begin construction of the garage in May. Construction is on schedule and we anticipate moving into the building starting in January 1994.

Senator Domenici: Once the Archives II facility is complete, what records will be transferred to it from the main Archives building in Washington, D.C.?

Dr. Wilson: We have an advisory group comprised of historians and constituent users of the National Archives helping decide what records will be transferred to the College Park site. At this point, we are looking at transferring modern military records, all audio-visual, cartographic and architectural records, and civilian records, including State Department records. All genealogical records, navy and old military records, and legislative and judicial records will be located downtown. The records to be transferred are currently located in a number of locations in the Washington, D.C. area, not just the main Archives building.

Senator Domenici: What will be the cost of relocating these records and other materials to Maryland?

Dr. Wilson: We do not have an estimate yet. We are in the process of contracting for a consultant to plan the move and prepare the move contract and cost estimates.

Senator Domenici: What are your long-term plans for the main Archives facility in Washington, D.C.?

Dr. Wilson: We have a master plan for renovating the Archives building which was developed by the architectural firm of Shepley, Bulfinch, Richardson and Abbott in 1985. It calls for expanding the space in the building devoted to public use, such as genealogy, exhibits, and films. It also includes a major renovation of the records storage areas to permit new heating, ventilating, and air conditioning systems to be installed to provide the proper storage conditions. Records will have to be temporarily relocated to the new building while the renovation is going on. We will pursue this project beginning in the mid 1990s after Archives II is complete.

PRESERVATION

Senator Domenici: The budget justification indicates that the Archives has not achieved its goals under its twenty-year preservation plan because annual funding levels required to fully implement and support the plan have not been provided.

Given this, the justification indicates that the Archives is currently looking at its preservation workload and will revise its workload this summer to determine if additional funds should be requested for preservation of the backlog. Would you please provide for the record the annual funding level recommended for each fiscal year in the existing preservation plan compared with the amount requested in the President's budget and the amount appropriated in each of those years.

[The information follows:]

20 Year Preservation Plan Funding (dollars in thousands)									
Funding	1984	1985	1986	1987	1988	1989	1990	1991	1992-2005
Required	\$6.415	\$5.585	\$8.585	\$11.245	\$11.245	\$11.245	\$11.245	\$11.245	\$11.245 per yr
Request	4.440	5.585	8.585	7.000	7.000	7.000	7.000	7.000**	
Appropriated	4.440	5.585	7.085*	7.000	7.000	7.000	7.000		
Obligated	6.551	5.393	4.868	6.212	6.066	5.330			

*Includes Gramm-Rudman-Hollings reduction of \$1,500,000.

**Excludes \$180,000 requested not related to 20 year plan.

Senator Domenici: Once you have revised your plan this summer, will you please make that available to the Committee along with the level of funding recommended to implement that plan?

Dr. Wilson: Yes, I will be pleased to make the revised preservation plan and recommended funding projections available to the committee.

ELECTRONIC RECORDS

Senator Domenici: An increase of \$848,000 and 8 full-time positions is requested for fiscal year 1991 to support electronic records. Would you please be more specific as to what problems Archives is now encountering in accepting, preserving and storing electronic records and how these funds will be used to enhance your capabilities in this area?

Dr. Wilson: The principal difficulty we have encountered in planning for electronic records has been an explosive growth in workload which has outstripped even the additional resources we have devoted to this area in the last two fiscal years. In 1989, agencies transferred to the National Archives more than six times the number of datasets which

they had sent in 1988. The number of reels of computer tape we copied in response to reference requests in 1989 was almost 100% greater than the previous year. Requests from other agencies and from outside of the Federal government for advice on electronic records and for information about our programs and holdings have been practically insatiable. Our workload continues to grow in 1990.

The Director of our Center for Electronic Records has identified four major problems we must address. First, the National Archives lacks adequate current information on the maintenance of data files by Federal agencies. Second, some electronic Federal records require sophisticated or complex hardware and software for access. The third problem arises from the spread of microcomputers, local area networks and office automation tools. The growth in this area has led to the creation and maintenance of electronic records which are outside of the effective control of the agency, in general, and of records management, in particular. Finally, electronic documents created through word processing and other office automation tools constitute a category of electronic records requiring substantially different approaches than those used in archival programs for traditional data files.

We have requested additional funding and FTE for electronic records activities to initiate or enhance these programs in the National Archives. We require resources to establish effective archival control, preservation, and reference service for all the National Archives growing machine-readable holdings and to provide adequate computer resources and expertise to begin to deal competently with the very diverse, large and complex technical issues posed by electronic records created and maintained by Federal agencies. A portion of the request is needed to develop agency-wide information systems with data about records in the custody of other Federal agencies, the Federal records centers, and the National Archives to track records through their life-cycle and ensure their timely transfer to the Archives. Finally, we requested resources to continue research in alternative preservation and retrieval technologies.

Senator Domenici: Given the fact that the wave of the future is for government agencies, including eventually the IRS, to store records electronically, what impact will this have on the Archives?

Dr. Wilson: The Center for Electronic Records has developed a five-year staffing plan and five-year ADP plan. The plan anticipates that the workload will double over that period. ADP requirements for the program include enhancing our current preservation program through the installation of a computer devoted to electronic records preservation, development of data dictionaries, purchase of text retrieval software, development of data management tools, study of electronic transfer of data from Federal agencies directly to the National Archives, and a study of media conversion technologies.

Senator Domenici: Will this eventually result in a reduction in the Records Centers' physical storage space requirements?

Dr. Wilson: If the recent practice of direct filing to IRS of personal tax returns in a computer-ready form continues to be successful, space requirements for tax returns at the records centers can be expected to be reduced by some 100,000 cubic feet each year for the next seven years since much of the tax documentation in paper form will not be filed. The reduction in records centers space requirements from electronic recordkeeping in other agencies is not clear at this time.

DECLASSIFICATION

Senator Domenici: Last year, the Archives indicated that it had a backlog of over 317 million pages of 30-year old classified records waiting declassification and indicated this backlog was increasing due to the fact that approximately 40 percent of the records accessioned each year contain classified information. Have you made any progress in reducing the backlog of classified records requiring declassification?

Dr. Wilson: I regret that we have been unable to reduce the backlog of classified records eligible for declassification. Ten of the positions authorized in 1989 are now filled. Three of the new employees received their Top Secret clearances and actually began work declassifying records. Of the remaining seven new employees, one was reassigned to another position within the agency and one resigned to attend graduate school. In addition, absorbing the pay increase forced us to leave all of the positions authorized in 1990 vacant. The workload in the declassification program continues to grow relative to the resources available.

I believe that the backlog will continue to grow and remain a serious problem for us for two reasons. First, we are continuing to accession classified records which must be added to the existing backlog. A second and more pressing issue is the increasing workload resulting from special review requests under the Freedom of Information Act (FOIA) and Mandatory Review.

Senator Domenici: What is the current backlog?

Dr. Wilson: By the end of 1990, we estimate the volume of records eligible for systematic review and declassification will reach 400 million pages.

ROOSEVELT LIBRARY

Senator Domenici: The fiscal year 1991 budget includes an increase of \$1.7 million for repairs and alterations to the Roosevelt Library. Would you please provide a list of the repairs and alterations to be funded, the amount required for each, and the schedule for undertaking and competing this work if the funds are provided?

Dr. Wilson: The repairs and alterations to be funded are repairs to the roof and foundation and space alterations, totaling \$1,400,000, and improvements to the sidewalks, roadway, and parking lot, along with landscaping, totaling \$300,000. This totals to an overall need of \$1,700,000.

A schedule will be developed after funds are appropriated. It is expected to take one to three years for completion based on the experience with the Hoover renovation which is starting this year.

GRANTS

Senator Domenici: The fiscal year 1991 budget requests an appropriation of \$4,000,000 for the National Historical Publications and Records Commission grants program. Although the authorization for the grants program is \$10 million for fiscal year 1991, this is the first time I have seen funds included in the Administration's budget request for the grants program.

The fiscal year 1990 Appropriation Act earmarked \$5 million for the grants program. The post-sequester level reflected in the budget is \$4,930,000. The budget indicates that \$930,000 of this amount was provided by programmatic reductions in other Archives activities. Would you please provide for the record a list of the specific programmatic reductions made to fund the grants program for fiscal year 1990 and the amount of savings achieved for each?

Dr. Wilson: The \$930,000 reduction was taken from purchases that could be postponed from the Records Centers program (\$420,000), the Office of National Archives (\$230,000), Presidential libraries (\$205,000), and the Federal Register (\$75,000). As these are merely postponements, there are no associated savings.

Senator Domenici: What publications and records programs are receiving grant funds in fiscal year 1990? Please be specific as to the project and the grant received.

[The information follows:]

NATIONAL HISTORICAL PUBLICATIONS AND RECORDS COMMISSION

Currently Active Grant Projects, April 1990

RECORDS PROGRAM

Alaska Historical Records Advisory Board, Juneau, AK: \$12,693 to support the board's travel and meeting expenses. (90-052)

Alabama Department of Archives and History, Montgomery, AL: \$156,831 for a project, in conjunction with the New York State Library Manuscripts and Special Collections Section, to develop and test standardized procedures for the description of archival map holdings. (90-034)

California State Archives Foundation, Sacramento, CA: \$98,521 to develop archives programs in Napa and Placer counties and in the City of Napa and to assist in maintaining an existing program in Yolo County. The project would demonstrate the feasibility of sharing a professional archives among four local government jurisdictions. (88-093)

Oakland Museum Association, Oakland, CA: \$23,300 to put approximately 100,000 photographic images on videodisc using direct-to-disc recording equipment and to hold a workshop for museum, library, and archives personnel in the state to demonstrate the system and share experience gained during development and implementation. (89-074)

Southwest Museum, Los Angeles, CA: \$20,592 to complete the transfer of photographic images to laser videodisc. The project is one component of the museum's photo cataloging project that will provide online access and recordkeeping for the museum's photographic collection. (89-086)

Humboldt State University, Arcata, CA: \$70,180 to collect and preserve those records created by Northcoast labor that represent the diverse community history of the area. The project will establish the California Northcoast Labor/Community Archives at the university. (89-095)

Los Angeles County, Los Angeles, CA: \$30,000 to publish the Guide to Los Angeles County's Historical Records. Development of this publication is part of a project to establish an archives and records program for the county. (90-062)

Colorado Historical Records Advisory Board, Fort Collins, CO: \$9,999 for travel and meeting expenses to allow the State Board to carry out its grant review and statewide archival planning missions. (86-066)

Boulder Public Library Foundation, Inc., Boulder, CO: \$33,343 to appraise, accession, arrange, and describe the files of the Boulder Daily Camera, part of the Boulder Historical Society's A.A. Paddock Collection. Computerized access to the material will be provided through the Colorado Alliance of Research Libraries (CARL). (89-098)

Colorado State University, Fort Collins, CO: \$48,862 for the Colorado State Historical Records Advisory Board to develop and promote a program of workshops and on-site professional archival assistance for local manuscript repositories in the state. (90-035)

Windnam Textile and History Museum, Willimantic, CT: \$2,500 for a consultant to make recommendations on an appropriate records management program for the museum as well as recommendations for the construction of appropriate archival facilities for housing the museum's archives and special collections. (89-013)

George Washington University, Washington, DC: \$54,951 for a two-year project to develop a university archives and records management program. Activities to be undertaken include a campus-wide records survey, development of archives policies, procedures, and retention/disposition schedules, and preservation microfilming. (88-014)

District of Columbia Historical Records Advisory Board, Washington, DC: \$5,000 for travel and meeting expenses to enable the District Board to foster the development of cooperative acquisition policies in District repositories and the use of the Board as a forum for communication among repositories to encourage coordinated documentation efforts. (89-079)

Louis Wolfson II Media History Center, Inc., Miami, FL: \$61,594 to appraise, preserve, and make available newsfilm from WTVJ in Miami dating from 1949 to the present. The newsfilm is the earliest surviving local television newsfilm from South Florida. (88-098)

Florida State Historical Records Advisory Board, Tallahassee, FL: \$5,000 for continued support of travel and meeting expenses of the board. (89-034)

Florida State Historical Records Advisory Board, Tallahassee, FL: \$51,656 to study the issues surrounding information technology and public records in the State of Florida. (89-055)

The John and Mable Ringling Museum of Art, Sarasota, FL: \$42,242 to develop an archives and records management program for the museum's records and its extensive collection of manuscripts and records relating to John Ringling; the Ringling Brothers Barnum and Bailey Circus; and American circus history. (89-077)

University of Florida, Gainesville, FL: \$22,654 to preserve, arrange, and describe records and microfilm related to the university's agricultural program

at the Institute of Food and Agricultural Sciences and its predecessors.
(89-097)

Georgia Historical Society, Savannah, GA: \$88,340 to arrange and describe the Central of Georgia Railway collection. Prospering during the antebellum period, the Central was one of the Southeast's most important railroads and a major force in the economic development of the region. (87-115)

Atlanta Jewish Federation, Atlanta, GA: \$22,550 to survey, accession, and inventory records of the Jewish community in Atlanta. (88-103)

Shorter College, Rome, GA: \$2,961 for a consultant to assist with planning for an inventory of non-governmental records located throughout northwest Georgia. (89-094)

Hawaii State Foundation on Culture and the Arts, Honolulu, HI: \$150,000 for a two-year regrant program to promote the surveying and collecting of ethnic records in Hawaii, the nation's most ethnically diverse state. The project will be administered in cooperation with the Hawaii Historical Records Advisory Board. (87-081)

Iowa State University of Science and Technology, Ames, IA: \$51,539 to deacidify and encapsulate drawings and blueprints in the Warren H. Manning Landscape Collection. The collection represents the most comprehensive body of material related to Manning, a contemporary of Frederick Law Olmsted. (88-116+)

Polk County Department of General Services, Des Moines, IA: \$93,773 to develop the county's records management and archives program. The project will survey and inventory county records, prepare retention schedules for all records and finding aids for archival records, do preservation microfilming, and present workshops for county officials. (89-073)

Idaho State Historical Records Advisory Board, Boise, ID: \$37,904 to survey archival and manuscript repositories in Idaho and to develop a database of collections descriptions using the Western Library Network. (89-069)

Indiana Historical Society, Indianapolis, IN: \$17,175 to duplicate nitrocellulose panorama camera photonegatives from the society's extensive photographic collection. (89-081)

Tulane University, New Orleans, LA: \$87,500 to establish the H. Sophie Newcomb College Archives. The focus of the project will be to develop an archival program and establish the retention schedules and appraisal criteria that will ensure access to Newcomb College records located throughout the university. (89-052)

Louisiana State University, Baton Rouge, LA: \$66,140 to establish an effective university archives program by surveying university records, creating retention schedules, accessing archival records, and developing a records management manual and workshop to familiarize university staff with records policies and procedures. (89-062)

University of Southwestern Louisiana, Lafayette, LA: \$34,532 to arrange and describe the papers of Robert F. and Edwin S. Broussard. Selected portions of the papers will also be microfilmed. (89-088)

Maine Historical Records Advisory Board, Augusta, ME: \$31,150 to conduct a statewide assessment and reporting project to examine historical records conditions and needs in four areas: state government records, local government records, historical records repositories, and statewide functions and services. (90-036)

The Johns Hopkins University School of Medicine, Baltimore, MD: \$67,385 for the final year of a 3-year project, in cooperation with the university's Alan Mason Chesney Medical Archives, to initiate a records management program for the four

major Johns Hopkins Medical Institutions and to produce a guide to the management of medical records. (88-001+)

Carmelite Sisters of Baltimore, Baltimore, MD: \$37,185 to preserve, arrange, describe, and make accessible the historical records (1642 to date) of the oldest community of religious women in the original thirteen colonies. (88-106)

Old Sturbridge Village, Sturbridge, MA: \$31,390 to develop and archives and records management program at the museum. The archivist will also initiate a long-range planning program for a continuing archives program at the museum. (88-096)

Boston Symphony Orchestra, Boston, MA: \$3,450 for consultation on the appraisal and placement of its archival records and the establishment of a records management system. (90-004)

Cranbrook Educational Community, Bloomfield Hills, MI: \$50,656 to process community records and to establish a Machine Readable Cataloging Archival and Manuscripts Control format-compatible database for the management of the community's holdings. (89-071)

Red Lake Tribal Council, Red Lake, MN: \$83,600 to develop a tribal records management and archival program. (90-018)

Missouri Historical Records Advisory Board, Jefferson City, MO: \$7,500 to support the board's travel and meeting expense. (90-039)

Lauderdale County Department of Archives and History, Meridian, MS: \$76,240 to establish an archives and records management program for the records of Lauderdale County and the City of Meridian. (89-047)

City of Great Falls, MT: \$55,670 to hire a records manager to survey, appraise, and establish retention schedules for the city's records, and to develop a records manual for the city. (88-110)

Nebraska State Historical Society, Lincoln, NE: \$23,166 to rehouse approximately 6,500 images from the MacDonald Photographic Studio Collection, print significant images not previously printed, produce continuous-tone microfiche of images, and create finding aids to the collection. (90-001)

Nevada Historical Records Advisory Board, Carson City, NV: \$7,500 for travel and meeting expenses to allow the State Board to carry out its grant review and statewide archival planning missions. (86-068)

Nevada State Historical Records Advisory Board, Carson City, NV: \$150,000 for a two-year regrant program directed local governments in Nevada. The project's aim is to encourage the development of records management and archival programs for local governments, to improve existing programs, and to provide improved access to local government archives. (89-083)

Portsmouth Athenaeum, Portsmouth, NH: \$30,125 for an archivist to work on the collections of the Athenaeum and the Strawberry Banke Museum. The records document Portsmouth's role in local, state, and national history. (88-109)

New Jersey Division of Archives and Records Management, Trenton, NJ: \$40,900 to develop four units of a series of training modules in archival and records management theory, methodology, and law for state and local government officials. The modules will integrate a professionally produced videotape, printed workbooks, and personal instruction. (89-015)

New Mexico Historical Records Advisory Board, Santa Fe, NM: \$25,000 to conduct a statewide records assessment and reporting project. (88-050)

The University of New Mexico, Albuquerque, NM: \$4,783 to produce tonal microfiche and guides to the Henry A. Schmidt and Cobb Memorial photograph collections. The two collections contain unique images, c. 1885-1942, of miners and ranchers, and document both rural and town life. (88-112)

Foundation of the New York State Nurses Association, Guilderland, NY: \$46,948 for a two-year project to develop an archival program for the New York State Nurses Association and to initiate development of a coordinated strategy for documenting the discipline of professional nursing in New York State. (88-013)

Buffalo Society of Natural Sciences, Buffalo, NY: \$32,848 to establish an archives and records program for the society, the Buffalo Museum of Science, and the Tiffit Farm Nature Preserve. (88-099)

Museum of Modern Art, New York, NY: \$54,504 for a two-year project to appraise, arrange, describe, and preserve the museum's historical records, and to make those records accessible to the public. (89-038)

New York State Forum for Information Resource Management, Albany, NY: \$31,743 to inventory automated databases and selected manual files in 8 New York State agencies, to produce an automated database in the USMARC format and a sourcebook of information describing the databases and files, and to evaluate information management and policy issues. (89-078)

Buffalo and Erie County Historical Society, Buffalo, NY: \$2,500 for a consultant to develop a plan for computerizing the society's manuscript collections. (89-080)

The Jewish Museum, New York, NY: \$1,915 to hire a consultant to bring the computerized records of the National Jewish Archive of Broadcasting into conformity with national descriptive standards. (89-085)

New York City Municipal Archives, New York, NY: \$35,000 to produce microfilm of and guides for black and white 35mm nitrate photonegatives in the New York City Department of Taxes Photograph Collection. The collection, dating from 1939 to 1941, documents every building in New York's five boroughs standing at the time. (89-096)

City of Syracuse, NY: \$4,893 for a consultant to conduct a preliminary survey of current city government records management systems and facilities, to review the city's records management needs, and to recommend options to address those needs. (90-016)

North Carolina Historical Records Advisory Board, Raleigh, NC: \$6,100 for meetings of the board over a three-year period. The meetings are intended to improve the NHPRC grant review process and to plan for improved records programs in the state. (87-050)

Oklahoma Historical Records Advisory Board, Oklahoma City, OK: \$4,692 for travel and meeting expenses to allow the State Board to carry out its grant review and statewide archival planning missions. (86-065)

University of Oklahoma, Norman, OK: \$500 for interview expenses in connection with an archival fellowship. The fellowship award will be made from funds provided by the Andrew W. Mellon Foundation. (89-053)

University of Oklahoma, Norman, OK: \$25,200 for fellowship in archival administration made from funds provided by the Andrew W. Mellon Foundation. (89-M18)

Oregon State Archives, Salem, OR: \$25,980 to undertake preservation microfilming and description of the pre-statehood records of Oregon government. The records cover the work of the Military Department, the Supreme Court, the Secretary of State, and county governments during the years 1837-1859. (88-102)

Oregon Historical Society, Portland, OR: \$6,072 for a consultant to develop a plan for appraising, cataloging, and repairing five television newsfilm collections. (89-075)

Pennsylvania Historical Records Advisory Board, Harrisburg, PA: \$5,907 for travel and meeting expenses to allow the State Board to carry out its grant review and statewide archival planning missions. (86-067)

Chester County Historical Society, West Chester, PA: \$41,594 to arrange and describe the administrative and fiscal records of Chester County, 1699-1945. These and other records form perhaps the most comprehensive documentation of any county government in the nation during the colonial period. (88-114)

Rhode Island State Archives Division, Providence, RI: \$114,022 to establish an active state archival program and to identify archival materials located in the state records center, state government offices, departments and agencies, as well as fugitive state records located in historical repositories. (88-077)

South Carolina Historical Records Advisory Board, Columbia, SC: \$3,050 to support the board's travel and meeting expenses. (90-019)

South Carolina Department of Archives and History, Columbia, SC: \$150,000 for a regrant program sponsored by the South Carolina Historical Records Advisory Board for local governments to develop archival and records programs, study records-related problems, microfilm permanently valuable records, and produce finding aids to local government archives. (90-038)

Oglala Lakota College, Kyle, SD: \$43,130 to develop an archives and records management program for Oglala Sioux tribal records and to provide on-the-job training in archival work. (89-087)

Knox County Government, Knoxville, TN: \$79,400 to develop the county's records management and archives program. Project objectives include a survey and inventory of county records, transfer of records from county offices to the county's records center and to the county's archives in the Knox County Public Library System. (89-082)

Historic Rugby, Inc., Rugby, TN: \$16,865 to organize, arrange, and describe its archival collections and to make them available in its newly renovated Archives and Research Centre. Rugby was a 19th-century utopian colonizing effort initiated by British author and reformer Thomas Hughes. (89-089)

University of Texas-Austin, Barker Texas History Center, Austin, TX: \$33,096 to arrange, describe, preserve, and make accessible images from the Robert Runyon Photograph Collection (1912-47), which documents the Mexican Revolution's impact on the border and region, the U.S. military effort at Fort Brown, and the development of the Rio Grande Valley. (88-095)

Texas Historical Records Advisory Board, Austin, TX: \$4,991 to support travel and meeting expenses of the Texas Board. (89-056)

Texas State Library Local Records Division, Austin, TX: \$66,200 for a project to improve the knowledge of Texas local government officials about appropriate ways to use micrographic technologies. The project will produce a brochure and handbook, present workshops, and provide on-site consultant assistance. (90-025)

Utah Division of State History, Salt Lake City, UT: \$116,996 to develop an automated information system about archives and records holdings in the state. The system would be part of the Research Libraries Information Network (RLIN) nationwide database. (88-090)

Vermont Historical Records Advisory Board, Montpelier, VT: \$2,500 for travel and meeting expenses to allow the State Board to carry out its grant review and statewide archival planning missions. (87-116)

Shelburne Farms, Shelburne, VT: \$40,273 for a two-year project to establish an archival program. Developed in the late 1880s, Shelburne Farms was noted for the incorporation of conservation principles in its overall landscape design, as well as its innovative livestock breeding and agricultural programs. (89-037)

Virgin Islands Historical Records Advisory Board, Charlotte Amalie, VI: \$8,350 for the territorial board's travel and meeting expenses. Grant funds will be used to undertake assessment and planning activities over the next three years. (89-099)

Virginia State Historical Records Advisory Board, Richmond, VA: \$50,000 for a two-year regrant program directed at the state's public and private manuscript repositories. The project will develop a statewide preservation plan for archives and manuscripts and support conservation/preservation surveys in up to 40 manuscript repositories. (89-035)

People-to-People Health Foundation, Millwood, VA: \$34,592 to establish an archives and records management program. (89-090)

King County, Seattle, WA: \$71,457 to develop an archival program for the county's records. Following appraisal, accessioning of archival records in agency custody, arrangement, and description, materials will be transferred to the state's regional archival facility. (88-071)

Lummi Indian Business Council, Bellingham, WA: \$56,500 to develop an archival program in conjunction with a newly established records management department. (89-061)

Milwaukee Public Library, Milwaukee, WI: \$44,944 to develop a municipal archives program for Milwaukee. The project will evaluate records retention schedules, arrange and describe existing holdings, and enter records series information into the Research Libraries (RLIN) database (87-097+)

Wisconsin Historical Records Advisory Board, Madison, WI: \$11,500 to support travel and meeting expenses for the Board, to plan statewide historical records programs, and to improve the review process for NHPRC records proposals. (87-114+)

State Historical Society of Wisconsin, Madison, WI: \$68,764 to evaluate the physical condition of and appraise, organize, and provide access to television newsfilm, ca. 1955 to 1972, from four television stations in Madison. The main goal of the project is to develop and test appraisal and description guidelines for the newsfilm. (88-115)

Library Council of Metropolitan Milwaukee, Milwaukee, WI: \$43,500 to develop a coordinated archival collecting and accessioning program for repositories in the Milwaukee area. (89-060)

Regional Projects

University of Connecticut, Storrs, CT: \$76,513 on behalf of the New England Archivists. To develop and present a series of 15 basic archival training workshops throughout the New England region. (87-098)

University of Pennsylvania, School of Nursing, Philadelphia, PA: \$47,888 to survey, appraise, and accession records and manuscript materials relating to the history of nursing in the Middle Atlantic region. The project will focus on records of schools of nursing, nurses' associations, health care agencies, and hospitals. (89-058)

GRANTS

Senator Domenici: How many grant applications do you estimate would have been approved for fiscal year 1990 if additional funding had been available for this program?

Dr. Wilson: In the records program area, the Commission has not yet awarded all of the records grants that it will recommend during 1990, since there is still one award cycle to be completed during the fiscal year. Based on the number of grant applications submitted and the amount of funding available to the Commission during this year, however, it is

likely that an additional twenty records grants could be awarded if funds were available. These grants are for projects to preserve valuable historical records in the states and to establish archival programs for the ongoing long-term care of these records.

In the publications program, an increase in funding above the present level of \$5 million would help secure from financial need such important documentary editing projects as Jefferson, Adams, Washington, U.S. Grant, Frederick Douglass, Diego de Vargas, Stanton-Anthony, the Documentary History of the Southwest, and Freedmen In Southern Society. Overall funding for these projects is still well below necessary funding levels.

Senator Domenici: How many fewer grants would be awarded in fiscal year 1990, given the \$930,000 reduction from fiscal year 1990 proposed?

Dr. Wilson: A reduction of \$930,000 would result in the elimination of twelve records grants and twelve publication grants.

Senator Domenici: How many grants would be awarded in fiscal year 1991 if the program were funded at the authorized level of \$10 million?

Dr. Wilson: At a funding level of \$10 million, the NHPRC's records program would be able to increase significantly its grant support in several key areas. The number of grants awarded could increase to approximately eighty-eight, while the Commission could also channel additional funds into areas of special need. The most important of these is the preservation and management of electronic records, to which the Commission has voted to give special emphasis.

Additional state-based regrant projects would be supported, with an average grant of \$150,000, to channel money to local institutions in the states and to generate state and local matching funds for records programs. Other special areas that would benefit from increased funding include the work of the State Historical Records Coordinators and State Historical Records Advisory Boards, which play a vital role in fostering the development of records programs in the states, and enhancement of the records program's support for educational and research activities relating to archival administration.

With funding at \$10 million for fiscal year 1991, the Commission will be able to support the collecting, editing and publishing of the papers of the Founding Fathers--Jefferson, Madison, Adams, Franklin and Washington--and other significant American historical figures and documentary projects, such as the Documentary History of the First Federal Congress, at a level more closely reflective of their financial needs.

While the NHPRC continues to support ongoing projects, there is a need for new projects. Included are the papers of Robert A. Taft, Eleanor Roosevelt, Robert E. Lee, and James Monroe; the petitions of Blacks to Southern legislatures; the letters and writings of Japanese-Americans interned in

the United States; and the letters of soldiers serving in the Armed Forces during World War II. Other projects would preserve and publish documents illustrating the early years of various immigrant groups.

Also, beyond the editorial support for these significant projects, the Commission provides subvention grants to some thirty university presses to publish and distribute these fine volumes. With \$10 million, this part of the program could be increased to \$350,000, the level currently needed to publish the volumes already prepared for publication and to ensure their wider distribution.

SUBCOMMITTEE RECESS

Senator DeCONCINI. The subcommittee will stand in recess until 10 a.m., Wednesday, April 25.

[Whereupon, at 11:29 a.m., Thursday, April 5, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, April 25.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

WEDNESDAY, APRIL 25, 1990

**U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.**

The subcommittee met at 10 a.m., in room SD-116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini, Mikulski, and Kerrey.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF RICHARD G. AUSTIN, ACTING ADMINISTRATOR

ACCOMPANIED BY:

RAYMOND A. FONTAINE, COMPTROLLER

WILLIAM B. EARLY, DEPUTY COMPTROLLER FOR BUDGET

OPENING REMARKS

Senator DeCONCINI. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

This morning we will take testimony concerning the fiscal year 1991 budget request for the General Services Administration and the Executive Residence of the White House.

Our first panel this morning will be the General Services Administration. Testifying on behalf of the General Services will be the Acting Administrator, Mr. Richard G. Austin.

Welcome, Mr. Austin. The GSA fiscal year 1991 budget and the President's March 29, 1990, budget amendment include new appropriations of \$2.4 billion. Most of this is for construction of new Federal buildings, which were contained in the President's budget amendment.

I want to spend some time on the subject this morning, as the subcommittee has serious concerns over the administration's proposed scoring of Federal construction projects.

Without further delay, Mr. Austin, you may introduce your folks here and summarize for us, if you would, please, your statement.

Mr. AUSTIN. Mr. Chairman, thank you.

It is a pleasure to be here. I have with me this morning Ray Fontaine, the Comptroller for the General Services Administration and Bill Early, the Deputy Comptroller for Budget.

As I say, Mr. Chairman, it is a pleasure to be here. I do have just a brief opening statement, if I may, Mr. Chairman.

OVERVIEW

Senator DECONCINI. Please proceed.

Mr. AUSTIN. In 1991, GSA's planned obligations will total almost \$9 billion to perform a variety of regulatory and management and support functions assigned to us as the Federal Government's central administrative policy unit.

We manage and oversee real property, ADP, and telecommunications programs, help set acquisition policies, dispose of Federal surplus property, and centrally provide goods and services to the agencies when this is quality and cost effective.

Most of this program is financed by our customers, either by rental payments for space they occupy or by reimbursements and payments to the revolving fund for the purchase of goods and services. Less than 3 percent of our funding comes from appropriations to GSA.

In fiscal year 1991, we are requesting a total of \$235 million in new appropriations from this subcommittee. This amount will be over \$53 million below levels enacted by fiscal year 1990, will support ongoing programs at the current level, and allow selected initiatives.

Another large decrease will result from the fact that Congress appropriated \$38.2 million in fiscal year 1990 for a number of grants to public and private institutions. These are not repeated in fiscal year 1991.

Partly offsetting these reductions is an increase of \$15 million to accommodate the effect of inflation and one-half of the impact of the anticipated January 1991 pay raise.

There are also a number of smaller programs related to increases which will be addressed in greater detail as you review the involved accounts.

The subcommittee is being asked to approve \$3.8 billion in new obligational authority, or authority to spend income, for fiscal year 1991 real property activities under the Federal buildings fund. This is \$505 million above the level enacted for fiscal year 1990 and will ensure continuation of services at necessary levels, while making some inroads in our capital requirements.

The sum of \$271 million is budgeted for the construction and acquisition of facilities, and is mainly for general purpose office space and for facilities of the courts. This is \$132.2 million higher than 1990.

The sum of \$572 million is requested for repairs and alterations in 1991, only slightly higher than 1990. Primary emphasis is directed to the repair and modernization of our facilities and for projects related to health and safety of employees. Funds are also included to continue the program begun in 1988 for improvements to United States-Mexico border facilities.

Rounding out the 1991 capital program is \$176.4 million for design and construction services in support of the construction and repairs and alterations programs, and \$136 million for the payment

of principal, interest, and taxes on facilities previously acquired through contract purchases.

The 1991 budget request for rental of space activities is \$1.5 billion, which provides for the payment of existing leases, projected new leases, and building services furnished by lessors under the terms of lease agreements.

The remainder of the fiscal year 1991 Federal buildings fund program will require \$1,037,000 for real property operations, such as cleaning, operation, maintenance, and protection of facilities and related services, and \$90.8 million under the program direct activities of overall management of the real property program.

To ensure that the Federal buildings fund activities can be accomplished as approved by Congress, we are also proposing a general provision that would authorize appropriations to the fund to offset any income reductions resulting from legal restrictions or limits on the rental payments that agencies make for space and services.

The appropriations would be scored against the subcommittee that sets the rental limitations. We feel this is a more practical approach than trying to adjust service levels to varying income levels from tenants, and hope that we can count on the subcommittee's support.

In addition, Mr. Chairman, to this basic program, the President has recently transmitted to Congress a fiscal year 1991 budget amendment that proposes direct appropriations of \$2.4 billion to the Federal buildings fund to implement the recommendations of the joint study with the Office of Management and Budget concerning future Federal space requirements.

Last, Mr. Chairman, the agency's fiscal year 1991 employment is budgeted at the full-time equivalent of 19,456 personnel, a net 71 FTE below the level established for 1990. This reflects a generally stable work force following a period of substantial reduction through the 1980's.

Mr. Chairman, this completes my brief overview of GSA's 1991 budget program and I would be glad to answer questions.

If I may, Mr. Chairman, at this time I would like to ask John Mitrison to join me at the table. He handles our Border Station Program.

PREPARED STATEMENT

Senator DeCONCINI. Please, Mr. Mitrison.

Mr. Austin, thank you. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF RICHARD G. AUSTIN

Mr. Chairman and Members of the Subcommittee: It is my pleasure to appear before you today in support of the fiscal year 1991 budget request for the General Services Administration [GSA].

In 1991, GSA's planned obligations will total almost \$9 billion to perform a variety of regulatory, management, and support functions assigned to us as the Federal Government's central administrative policy unit. We manage and oversee real property, ADP, and telecommunications programs, help set acquisition policy, dispose of surplus Federal property, and centrally provide goods and services to agencies when this has quality or cost advantages.

Most of this program is financed by our customers, either by rental payments for space they occupy or by reimbursements and payments to revolving funds for the purchase of goods and services. Less than 3 percent of our funding comes from appropriations to GSA.

For fiscal year 1991, we are requesting a total of \$235 million in new appropriations from this Subcommittee. This amount, while over \$53 million below levels enacted for fiscal year 1990, will support ongoing programs at current levels and allow selected initiatives.

A major feature of the request is a net decrease of \$43.5 million associated with our proposal to convert the agency's internal accounting support from direct to reimbursable funding. This will allow full cost recovery from users, while ensuring that the pricing structure for goods and services more closely reflects the actual cost of doing business. The net decrease includes necessary increases to other GSA appropriations that will now pay for the services.

Another large decrease results from the fact that Congress appropriated \$38.2 million in fiscal year 1990 for a number of grants to public and private institutions; these are not repeated in fiscal year 1991.

Partly offsetting these reductions is an increase of \$15 million to accommodate the effects of inflation and one half of the impact of an anticipated January, 1991, pay raise. There are also a number of smaller program-related increases which will be addressed in greater detail as you review the involved accounts.

The Subcommittee is also being asked to approve \$3.8 billion in new obligational authority, or authority to spend income, for fiscal year 1991 real property activities under the Federal Buildings Fund (the Fund). This is \$505 million above the level enacted for fiscal year 1990, and will ensure continuation of services at necessary levels while making some inroads in our capital requirements. I will briefly touch upon the major features of this request.

\$271 million is budgeted for the construction and acquisition of facilities, and is mainly for general purpose office space and facilities for the U.S. Courts. This is \$132.2 million higher than the 1990 program.

\$572.7 million is requested for repairs and alterations in 1991, only slightly higher than in 1990. Primary emphasis is directed to the repair and modernization of our facilities and for projects related to the health and safety of employees. Funds are also included to continue the program begun in 1988 for improvements to U.S./Mexico Border Facilities.

Rounding out the 1991 capital program is \$176.4 million for design and construction services in support of the construction and repairs and alterations programs, and \$136.6 million for the payment of principal, interest, and taxes on facilities previously acquired through purchase contract or installment purchase arrangements.

The 1991 request for rental of space activity is \$1.5 billion, which provides for payments for existing leases, projected new leases and buildings services furnished by lessors under the terms of lease agreements. Because of the high and growing cost of commercially leased space, GSA will continue in its efforts to improve use of existing space, to dispose of unneeded space, and to replace leased space with Government-owned space.

The remainder of the fiscal year 1991 Federal Buildings Fund program will require \$1,037.2 million for real property operations, such as cleaning, operation, maintenance, and protection of facilities and related services, and \$90.8 million under the Program Direction activity for overall management of the real property program and various common support functions.

To ensure that Federal Buildings Fund activities can be accomplished as approved by Congress, we are also proposing a general provision that would authorize appropriations to the Fund to offset any income reductions resulting from legal restrictions or limits on the rental payments that agencies make for space and services. The appropriations would be scored against the subcommittee that set the rental limitation. We feel this is a more practical approach than trying to adjust service levels to varying income levels from tenants, and hope that we can count on the Subcommittee's support.

In addition to this basic program, the President has recently transmitted to Congress a fiscal year 1991 budget amendment that proposes direct appropriation of \$2.4 billion to the Federal Buildings Fund to implement the recommendations of a joint study with the Office of Management and Budget concerning future Federal office space requirements.

Lastly, the agency's fiscal year 1991 employment is budgeted at the full-time equivalent (FTE) of 19,456 personnel, a net 71 FTE below the level established for 1990. This reflects a generally stable workforce following a period of substantial reduction in the 1980's.

Mr. Chairman, this concludes my brief overview of GSA's 1991 budget program, and I would be glad to answer any questions from the Subcommittee.

CONSTRUCTION PROJECTS

Senator DeCONCINI. Let me get into this problem the committee faces. We realize some of this is not your doing, but I would like to go over it with you.

The President's original fiscal year 1991 budget requests a total of \$271 million in new obligational authority for construction of 10 Federal buildings, one claim, and other nonprospectus projects.

However, on March 29, 1990, the administration submitted a budget amendment requesting new budget authority of \$2.414 billion for the Federal buildings fund for the direct construction of eight Federal buildings based on a GSA/OMB study of long-term nationwide Federal office space requirements. That budget amendment included appropriations of \$1.365 billion, as you mentioned, for fiscal year 1991 construction, advanced appropriations of \$730.7 million for fiscal year 1992 projects, and advanced appropriations of \$317.6 million for fiscal year 1993 projects.

Along with the original budget and amendment, the administration is changing the scoring rules for lease purchase buildings, not only for new buildings in fiscal year 1991, but also for lease purchase buildings previously authorized by the Congress.

I want to talk about the administration's changes and policies with respect to the construction of Federal buildings, as this no doubt will affect the subcommittee's decision in the next fiscal year.

The subcommittee recognizes that direct funding of building construction is the cheapest method of obtaining Federal office space. However, direct funding assumes that the money necessary to pay for these projects up front must be available.

If lease purchase agreements are to be treated the same as direct appropriations for scoring purposes, the subcommittee may not have the funds available to construct projects, and as a result, GSA may have no choice but to enter into short-term leases, which we all know are the most costly form of acquiring office space.

Mr. Austin, maybe you can help me with this problem. I recognize that the scoring decisions are made by OMB and not GSA. I would like to get your views on the administration's proposed scoring changes, particularly with respect to the lease purchase agreements and get your thoughts on what would happen if you had to continue short-term leases to meet your long-term space requirements.

Mr. AUSTIN. Mr. Chairman, let me indicate just a little background. GSA and OMB met back in May of last year and formed a special task force that went out and reviewed what at that point in time, and I say that point in time because it is a pictured point in terms of defining the total need in the inventory.

The 21 projects that are referenced in the request are not the total universe requirements, but only that capsulized portion which was readily identifiable at the time. I think sometimes that point tends to get lost in the process.

Out of that task force we then agreed to move forward with the lease purchase concept and there were a number of stipulations at-

tached to it. There would be a corresponding initiative to alleviate the rent caps. There would be an increase to 100 percent pass-through of the CPI on rent rates. There would be an attempt to score any directed rental reductions back to the subcommittee that caused those rental reductions. The whole attempt was to make the Federal buildings fund more viable, to get it back into what it was intended to do in 1972.

There were 21 projects identified as being needed at that point in time with a cost of about \$3 billion.

In looking at the ability of the Federal buildings fund to meet that obligation, we could support about \$500 million over the term 1991 to 1993.

For the other \$2.5 billion, we needed to come up with a method to raise those funds. To do that, least cost financing was agreed upon and we proceeded by drafting legislation and presenting that legislation both to this committee, to the House Public Works and House Appropriations Committees, and to the Senate Public Works Committee, as well.

That was draft legislation. At that point in time, however, discussions began within OMB, between the management side of the House and the budget side of the House in terms of the scoring issues and how OMB was going to deal with it.

We suggested that the scoring ought to be done on an annualized basis authorizing those dollars to retire the debt.

OMB has taken a position, as well as CBO, that they need to score the entire dollar amount against the fiscal year in which it would be authorized. Therefore, in looking at that and understanding that for the 21 projects, \$2.4 billion would be required to direct fund them. To do least cost financing you are talking between \$8.4 and \$9.6 billion over 30 years, depending upon the financing mechanism that is utilized against straight lease at \$14 billion.

So in terms of priority, obviously direct funding would be the most advantageous. Lease purchase would be the second most advantageous. Leasing straight would be the least advantageous.

Senator DECONCINI. You mean the long term—any leasing straight without the right to purchase.

Mr. AUSTIN. Any lease, right.

The argument has raged on between various interest groups within OMB in terms of the scoring issues. In talking with Mr. Diefenderfer, OMB made the decision that they would request and amend this year's budget to allow for the direct funding of the \$2.4 billion. Then a follow-on task force is to be developed between GSA, DOD, and VA, which makes up the largest group of landholding agencies in the Federal Government, to look at the total universe of the building needs for all three entities, and as well as a subset to that task force, address the issues of scoring and how we are going to score.

My personal viewpoint is, in looking at it realistically, I am not sure that the \$2.4 billion will ever come to a reality. I am certainly not trying to prejudice Congress or to second guess any action by any committee of Congress. I would hope that another financing avenue would still be there, if in fact the \$2.4 billion is not made available. The avenue to be seriously looked at is least cost financ-

ing and, in the long range, I hope we address the scoring issues and consider a capital budget.

Senator DECONCINI. What is your prognosis? Are you going to be able to have some influence with OMB on this decision?

Mr. AUSTIN. Well, I think the first issue that has to be dealt with and that is, are we going to get the direct appropriation for the \$2.4 billion? In the absence of that, then I would hope that we could move expeditiously between OMB, GSA, and the other two landholding entities, as well as representatives from the various interested committees, to sit down and move this thing through very quickly.

Mr. Chairman, as I indicated in my testimony, we are spending \$1.5 billion a year now in leases. That is accelerating at an average of \$175 million a year. As our 20-year leases begin rolling over, the \$9 and \$10 a square foot leases, we are seeing in many cases the lease rates are going to \$35, \$40, and \$45 a square foot.

Now in some instances, Mr. Chairman, it makes good sense to go out and lease, in those areas where there is a limited-time need, and in those areas where the market environment is such that we can lease more economically than build.

By far and away, if it is a long-term need, we need to be looking at least cost financing as a viable mechanism for acquiring space.

As I said, that is a pictured time capsule of what was needed within the 1991-93 timeframe.

Senator DECONCINI. Is there a number of—or is there a period of time when a lot of these leases will come due? I mean are there several of them that are 10-year leases made all around the country?

Mr. AUSTIN. They vary, Mr. Chairman.

Senator DECONCINI. I know they vary, but looking at your leases, do you see 1992 as a busier year for leases coming due than in 1991?

Mr. AUSTIN. We are coming up on an inordinate amount of 20-year leases that are expiring.

REPAIRS AND ALTERATIONS

Senator DECONCINI. The next year?

Mr. AUSTIN. The next several years and then it will flatten out; and it goes through peaks and valleys. The other part of our problem, Mr. Chairman, and it is a real problem, that is, that 80 percent of our inventory is over 20 years old, in terms of Government-owned inventory. Forty-seven percent of our inventory is over 50 years old and we are going through third and fourth iterations of alterations and repairs. We are sinking an inordinate amount of money into facilities which are vanilla-type office facilities. I am not talking about historic monumental kinds of buildings. These are buildings that, quite frankly, ought to go out of our inventory and we ought to sit down and seriously look at that.

Senator DECONCINI. Why, because they are not cost effective now you mean?

Mr. AUSTIN. They are not cost effective and we are spending—

Senator DECONCINI. You cannot continue to use what was a modern day office building 50 years ago?

Mr. AUSTIN. No, sir; the office environment has changed. The electronics that we use, the telecommunications systems that we use, we are finding that the HVAC systems need to be replaced. We are addressing health and safety issues. As I said, we are spending \$525 million this year on repairs and alterations to upgrade what we currently have. That number is only going to continue to rise.

Senator DECONCINI. Have you looked at what it would cost to build a new building today? They are so expensive versus the continuation of a lease over a long period of time, say of a 40- or 50-year-old building you are using?

Mr. AUSTIN. In those that are vanilla-type office buildings, those which were at the time the state of the art, I suspect we will recapture our investment over a respectable period of time.

Senator DECONCINI. You will?

Mr. AUSTIN. Yes, sir.

LEASE PURCHASE AGREEMENTS

Senator DECONCINI. What is the difference in cost to the Federal Government between direct Federal construction versus lease purchases?

Mr. AUSTIN. Well, in terms of these projects, direct Federal construction, \$2.4 billion estimated at this point in time, lease purchase, \$8.4 to \$9.6 billion over 30 years.

Senator DECONCINI. Over 30 years?

Mr. AUSTIN. And that depends on the financing mechanism used. Do we go to the Federal Financing Bank and borrow at treasury rates? Do we bring some kind of a commercial venture together between ourselves and the developer? That could come in any number of mixes, Mr. Chairman. The developer could do the interim financing himself, or we could take out the financing on the back end, or we could come up front and create a drawdown situation whereby we would become the developer in effect and finance it over the period of the project ourselves.

Senator DECONCINI. What if the Congress mandates financing through the Federal Financing Bank, would there be any difference in terms of cost for lease purchase or direct construction costs?

Mr. AUSTIN. Through the Federal Financing Bank, it would be cheaper, Mr. Chairman.

Senator DECONCINI. It would be cheaper?

Mr. AUSTIN. Yes.

Senator DECONCINI. Can we do that? I mean is that a problem?

Mr. AUSTIN. To my knowledge it is not a problem. It deals, again, with the scoring issues.

Mr. EARLY. In the past, we have, when we last had authority to do lease purchase, we did them——

Senator DECONCINI. By the Federal Financing Bank?

Mr. EARLY. The Federal Financing Bank, but the change in the Gramm-Rudman law 2 years ago put the Federal Financing Bank on the scoring table and they would have to get it off the scoring table to use it as an avenue today. Otherwise, that would be the best way to go.

Mr. AUSTIN. And I think, Mr. Chairman, that was the administration's position, that if in fact we were going to have to score through the Federal Financing Bank up front, then direct appropriations was, therefore, by far the cheapest.

Senator DECONCINI. Our problem, as you may know, Mr. Austin, not to belabor you, is that we will not know what we have until we get our 302(b) allocation. We do not know if we are going to have anywhere near this \$2.4 billion. I know you need it badly. This scoring thing with OMB really has us concerned.

Do you see benefits to continuing the present scoring arrangement for lease purchase agreements?

Mr. AUSTIN. As I have said earlier, Mr. Chairman, I would see this as the more economical way to do it.

Senator DECONCINI. I would like to have that on the record. You think that is a proper way to operate—

Mr. AUSTIN. I think it is a mechanism. It is a viable mechanism for us to be able to do the construction that we need out there. If given the range of options, whether it be the Federal Financing Bank or whatever—

Senator DECONCINI. Yes; that is really the question. Which one would you prefer, this one?

Mr. AUSTIN. Yes, sir.

Senator DECONCINI. The way we have been doing them?

Mr. AUSTIN. The way we have been doing them.

Senator DECONCINI. Do you think that under the circumstances that is the best way to operate?

Mr. AUSTIN. It most approximates the capital budgeting process.

EPA BUILDING

Senator DECONCINI. Can you give an explanation to the committee why the \$300 million in funding is being requested in the administration's budget amendment for fiscal year 1992 construction of the Environmental Protection Agency building, which was authorized through a lease purchase agreement by the committee in 1990?

Mr. AUSTIN. That again, Mr. Chairman, goes back to the scoring issues. There was a desire by OMB, as I understand it, to cap the project. The projected cost of the project was about \$425 million and that was for construction on a Government-owned site at the Southeast Federal Center. That proposal has changed now and in fact we are developing that project in the absence of EPA and there has been a request made by the EPA Administrator to go out on the open market within the D.C. area for a solicitation to construct the facility.

It was capped at \$300 million and in fact, only this morning I became aware that the \$300 million, while it is identified in the amendment, is not to come out of the \$2.4 billion. It is directed to come out of the residual funds within the Federal buildings fund. I am going to have to sit down with OMB and talk with them because there is no way we can afford to do that out of the Federal buildings fund.

Senator DECONCINI. That is not what I am told it says in the budget amendment.

Mr. EARLY. The budget amendment addressed the specific projects and then added the EPA building, and indicates that the dollars for the EPA project shall be derived from other resources available to the Federal buildings fund. What OMB meant by that is that that project is to come from the future revenues generated by the Federal buildings fund rather than from appropriations to the fund.

As Mr. Austin indicated, we had agreed on a need of about \$3.2 billion; about \$500 to \$700 million could be generated ourselves. The sum of \$2.5 billion had to come from some other mechanism, either an appropriation to the fund or through lease purchase.

OMB has indicated that they would provide the \$2.3 billion through an appropriation. Meeting their commitment, the remaining amount would be generated through revenues of the Federal buildings fund from 3 to 4 years and they highlighted EPA, capping the project and indicating that it would come from sources being generated within the fund and that it would be under a direct construction project rather than a lease purchase.

Senator DECONCINI. Am I correct, Mr. Austin, that the total cost for long-term leased space has not been requested in the President's budget?

Mr. AUSTIN. No, sir.

Senator DECONCINI. It has not?

Mr. AUSTIN. We are requesting annual funding within our budget.

Senator DECONCINI. So if the new administration's new scoring requirement is mandated, then Congress will not have the funds needed to comply with the scoring on leases.

Mr. AUSTIN. That very well may be true, Mr. Chairman.

Mr. EARLY. Mr. Chairman, we estimate that at the end of fiscal year 1991, the contracted value of the leases in hand would be \$6.1 billion.

Senator DECONCINI. That is the aggregate?

Mr. EARLY. That is the aggregate.

Senator DECONCINI. So unless the administration changes its scoring on leases in fiscal year 1991, the committee may have to direct GSA to enter into short-term leases, or would that be what you have to do?

Mr. AUSTIN. Well, that would be the least desirable, Mr. Chairman. The minute we start doing short-term leases, the cost goes up exponentially.

Senator DECONCINI. I know, but is that not realistically one option unless we get the money?

Mr. AUSTIN. Mr. Chairman, you are exactly right. The only option that I could foresee is we would have to go into leases, whether they would in fact be short term or long term, which would be within the funds available. Certainly, if directed by this committee to do so, we would enter into the short-term leases.

Senator DECONCINI. We do not want to do that, but how do we get that message to OMB? I am going to deliver it. Can you deliver it, too?

Mr. AUSTIN. Mr. Chairman, I have been working very closely with Mr. Hodson at OMB to try to resolve the concerns and I

would welcome any comments that you, as the chairman of the committee, would like to make to OMB on that issue.

Senator DECONCINI. We intend to bring that to their attention and already have, and I will when Mr. Darman comes up here. But it would be helpful for them to get it from you of how ineffective that is and how costly it would be.

Mr. AUSTIN. I have shared that on every occasion that I can.

BORDER STATION PROJECTS

Senator DECONCINI. You have? OK.

Can you tell me why no United States-Mexico border projects are included in the administration's new construction budget amendment?

Mr. AUSTIN. We have included a number of projects—or identified a number of projects, Mr. Chairman, that we are involved in.

We have requested approximately \$10.2 million this year. For Calexico, CA, \$1.2 million for design, in addition to \$2.5 million already appropriated, and for Ysleta, TX, \$9 million is requested to complete construction of this border project. This is in addition to the \$2.7 million already appropriated in fiscal year 1988. Through fiscal year 1990, we have \$145 million appropriated against a total estimated project cost of \$320 million. We have about \$60 million obligated for the various projects and are moving forward very well, Mr. Chairman.

We have a number of projects which we are waiting for agreements between ourselves and the Mexican Government, Santa Teresa, Los Indios, Brownsville, Calexico the new station in California, Otay Mesa, and Tecate. There are a number of projects that we have in the works and are prepared to move forward, although not requesting funding in this year's budget; Laredo West, Del Rio, Bridge of the Americas, Juarez-Lincoln, Naco, Sasabe, Andrade—excuse me for murdering these. [Laughter.]

I do French fairly well, though, Mr. Chairman.

Senator DECONCINI. What is the general reason for those projects being held up, the Mexican Government?

Mr. AUSTIN. No, sir; some are in the design phase—

Senator DECONCINI. Like Naco and Sasabe, what is the trouble with those?

Mr. MITRISIN. On Naco and Sasabe, we are in the process of doing general scopes of what is required at those stations and acquiring the land. We plan to do the construction of the new stations in the outyears. The thrust now is to complete the stations that we have under construction.

Senator DECONCINI. When might you be ready for construction say in Naco or even Otay Mesa or Sasabe?

Mr. MITRISIN. Well, I think on Naco and Sasabe, those are further out and we do not have an exact date. In terms of—

Senator DECONCINI. What are you talking about 5 years, 2 years?

Mr. MITRISIN. Yes; within a 5-year period.

At Otay Mesa we have money available for design. We are awaiting final agreement with Mexico on the design layout. They are building a station adjacent to ours at that site. Once we get that

agreement, then we can go forward with the design and then there would be money requested in the future for construction.

Senator DECONCINI. Can you give us a copy of a list indicating the status of those projects?

Mr. AUSTIN. Certainly. Let us go back and then redo this in terms of where we are at.

Senator DECONCINI. And can you tell us how much funding remains long term, to finish those?

Mr. AUSTIN. Yes, sir; in fact, we have identified those right here already.

Senator DECONCINI. With some of the larger border projects, do you think it would be wise to request construction appropriations before they are needed so that as a number of the projects gain the diplomatic notes needed to move into construction, we are not faced with the large funding requirements all of a sudden?

Mr. AUSTIN. The real difficulty, Mr. Chairman, as I understand it, is actually identifying which projects the Mexican Government is going to agree or concur on in a reasonable timeframe. I am a little concerned that if we start prefunding projects before we have diplomatic notes or agreements, what happens then is we encumber funds which could be better utilized against already allocated projects that have those notes.

Senator DECONCINI. I cannot argue with that, I guess.

What is the biggest hangup with getting the Mexicans' approval? First of all, who does that, the State Department?

Mr. AUSTIN. We work with the State Department.

Senator DECONCINI. You work with them?

Mr. AUSTIN. Yes, sir.

Senator DECONCINI. Is it a low priority with the State Department or is it a low priority with the Mexicans? What do you think seems to be the trouble?

Mr. AUSTIN. I will let John answer that and then I will give my personal opinion.

Go ahead, John.

Mr. MITRISIN. The State Department works as a conduit between GSA and the inspection agencies and the Mexican side. For State, it is a high priority. I think a large part of the problem is getting all of the parties to agree, particularly in Mexico, that they have agreed to go forward and that it is a long and arduous process of continued negotiations with Mexico.

GSA with the Department of State has biannual meetings with Mexico on a formal basis, as well as border walks. In those negotiations, we are continually pushing to get agreement with them.

Senator DECONCINI. Do you negotiate too?

Mr. MITRISIN. Yes.

Mr. AUSTIN. Mr. Chairman, I just met recently with the Ambassador to Mexico and we discussed this very issue and I think John has said it and correctly. That is, the fact that the Mexican States have a difference of opinion as to where these sites ought to be, for whatever reasons, from the central government in Mexico. This creates a conflict that carries on down as it would, I suspect, even in our own form of government, but it creates a conflict which delays the process.

If I may, Mr. Chairman, let me share with you a somewhat humorous story in light of our previous conversation. At the last conference in Mexico, it was shared with our people that the Mexican Government was looking at a new way to try to fast track the development of border stations and that one of the things that they were vitally interested in and going to begin exploring to speed up the funding process was a process called least cost financing. [Laughter.]

I asked the Ambassador as to where they were on that. The President, with his background in terms of financing and his finance minister, are exploring that approach right now. This may well become an option that they are going to use which could well put them ahead of us perhaps in meeting our obligations.

Senator DECONCINI. What do you estimate are the total outstanding funding requirements for United States/Mexico border facilities?

Mr. MITRISIN. Our current estimate, with this year's request of \$10 million, is \$164 million.

Senator DECONCINI. \$164 million?

Mr. MITRISIN. Yes, sir.

Senator DECONCINI. What are your construction capabilities for 1991?

Mr. MITRISIN. We we are going full out at this point in time to construction. We have already awarded nine construction contracts. We have awarded 24 design contracts. We expect through the end of this calendar year to have obligated in the range of \$80 to \$90 million on these projects.

Senator DECONCINI. Where is the Nogales project?

Mr. MITRISIN. The Mariposa project has been designed. Construction is supposed to start in June. On the Nogales project, we are going to be awarding design this month or early next month and we would expect construction to start 1 year after that.

Senator DECONCINI. Are you still meeting with the local border people?

Mr. MITRISIN. Oh, yes.

Senator DECONCINI. Is that an ongoing process?

Mr. MITRISIN. Absolutely.

Senator DECONCINI. It is very helpful to this Senator when you go down there and listen to them, even if they do not like what you are doing, at least they feel better about it. [Laughter.]

Particularly in Nogales. The area is so concentrated. It is a very difficult problem, and just one lane or walkway makes a world of difference and at least they get a chance to talk to you about it.

When was the last time you had people down there, do you know?

Mr. MITRISIN. Well, I was just down there 1 month ago.

Senator DECONCINI. And did you meet with community leaders?

Mr. MITRISIN. We met with the Mexican delegation and local border Customs people, but we do have people who come through on a regular basis. We could provide a list.

Senator DECONCINI. You meet with the business people on both sides, but certainly on our side?

Mr. MITRISIN. Yes.

Senator DECONCINI. That is what I am talking about. I know you need to meet with Customs and Immigration and what have you, but it is also helpful to meet with the citizens there because they want things that we cannot provide, but it is important for them to have a chance to talk to you about their concerns.

Mr. MITRISIN. Well, we talk to them on a regular basis.

Senator DECONCINI. The Congress appropriated \$54 million for U.S. border facilities in fiscal year 1990. I understand that there may be a funding shortfall on certain projects. As a result, scope changes are being made to cover the funding shortfalls. Is that accurate? Are you aware of any permanent design changes being applied to border projects as a result of the shortfall?

Mr. AUSTIN. There are two areas that we just recently had meetings on with the inspection agencies, Mr. Chairman. One is the Paso del Norte and the other is Bridge of the Americas.

We have redefined the scope of these two projects in order to avoid delaying construction. We are going to go forward now with the agreed scope changes for the SFO's. We will sit down and look at what the cost will be for these projects once we get the SFO's back. If we need to then look for refunding or reprogramming of funds or whatever in order to complete the original scope, we will have to come back to the committee.

Senator DECONCINI. Are you aware of any permanent design changes being applied to border projects as a result of this shortfall?

Mr. AUSTIN. The only design change that I am aware of, and I will let John address it as well, but the only design change that I am aware of is actual structural change to the facility itself, not in terms of lanes or roads into that facility—

Senator DECONCINI. Can you confirm that for us for the record?

Mr. MITRISIN. At the Bridge of the Americas and Paso del Norte, the objective is to move forward as quickly as possible. After we look at the bids, we would see what is available and would then do the entire scope with existing funds, reprogram funds or request additional funds.

We are not changing what the agencies have requested us to do. Senator DECONCINI. You are not?

Mr. MITRISIN. No, sir.

Senator DECONCINI. So if you are making any changes that affect the agencies—they get to approve them?

Mr. AUSTIN. Yes; they have been involved.

Senator DECONCINI. And you have not made any? And how about the local community, do they get involved too?

Mr. MITRISIN. The local community works through the local Customs monthly or bimonthly meetings to talk with the Customs broker to talk about their facilities concerns and Customs funnels that information to us. We also meet with the local people to hear their concerns on what is going on.

Senator DECONCINI. Because, it is a shame if after you build a nice new facility, you might have been able to prevent some local community resolution from saying why did you move that lane up this street and cut off someone, or whatever. I know you have a lot to do, but so much can be done by having hearings or meetings oc-

casionally, listening to them and considering their request and then doing what you think is best for traffic control.

Why don't you send up reprogramming authorization to cover any of the shortfalls? Do you not think you need it?

Mr. AUSTIN. We may well do that, but it will not be until later. These are due—the awards on these two projects, Mr. Chairman, are due in June.

Senator DeCONCINI. I see.

Mr. AUSTIN. We will then know what the cost differences are.

Mr. EARLY. In many cases what we try to do to not delay the project is that we have cost escalations where we can pull some pieces of the project out to hold the cost of the project within the amount that we have. We can then award that contract and then the subsequent contract we can look for the dollars to reprogram and that way it does not get delayed.

In some cases people look at that as a scope change. We generally do not and it does not delay the project.

HAZARDOUS WASTE FACILITIES

Senator DeCONCINI. So it is a matter of timing here. Thank you for that explanation.

Are you aware, Mr. Austin, of a need for the construction of hazardous waste removal facilities separate and apart from the normal secondary inspection areas at all ports of entry?

Mr. AUSTIN. I am not personally aware of it.

John, are you?

Mr. MITRISIN. The issue of the handling of hazardous waste has been brought up both by the inspection agencies and by border trade groups. At this point in time, we do not have any requirements from the agencies as to what they would want to have done. It is one of those areas where we are aware of the problem, but I do not think that anyone is knowledgeable on the exact solutions to the problem.

Senator DeCONCINI. Have you had discussions with U.S. Customs Service on that topic?

Mr. MITRISIN. Yes; U.S. Customs, in fact, has someone in Indianapolis at their facilities office who is responsible for——

Senator DeCONCINI. And do they make recommendations to you, or have they made recommendations to you?

Mr. MITRISIN. They have made no recommendations. We have had discussions because we are still, I think, in the formative stages of defining what we want to have.

Senator DeCONCINI. Are you receptive to taking recommendations from them?

Mr. MITRISIN. Oh, yes; there is another environmental issue, in fact, on which we have worked with the inspection agencies, air quality. We have two experimental projects, one at Calxico and one in El Paso to look at various ways——

Senator DeCONCINI. How are you going to fund those if you need to?

Mr. MITRISIN. Those are relatively small projects and we would fund it out of the border station program.

SAN FRANCISCO FEDERAL BUILDING

Senator DECONCINI. What is the status of the site acquisition for the new San Francisco Federal Building? Has the city offered to donate any property to date?

Mr. AUSTIN. Not at this point in time, Mr. Chairman. We are still working with the city on that project. There has been a number of ongoing conversations and discussions with them. One of these surrounded an issue where the developer was willing to trade a site for a building. That was not a workable alternative. We have not yet come to an agreement, Mr. Chairman.

CONSOLIDATION OF SECRET SERVICE

Senator DECONCINI. What is the status of consolidation activities of the Secret Service headquarters building? Have you received any funds appropriated to the Secret Service in fiscal year 1990 for renovation activities and if so, what activities, if any, do you plan to undertake this fiscal year?

Mr. AUSTIN. Mr. Chairman, let me ask my staff here. I am not aware of any at this point.

Mr. BIBB. I do not believe Secret Service is ready to move forward with the project.

I am David Bibb, Mr. Chairman.

Senator DECONCINI. Yes, sir, Mr. Bibb.

Mr. BIBB. The Secret Service did have some funds for consolidation here in Washington. They are a little early with that money.

Senator DECONCINI. That is what we told them last year.

Mr. BIBB. Our lease term on the existing building, I believe, ends in 1994 or 1995. So I think there needs to be a little closer tie between the funding and the expiration of that lease and I think they are prepared to rethink their options.

Senator DECONCINI. The Secret Service has requested funding of \$3.2 million in fiscal year 1991 to undertake renovations to its New York field office. The Service states that it requests these funds for the renovation work because GSA had not made this project a priority for repairs and alterations from the Federal buildings fund to date. Can you comment on that?

Mr. FONTAINE. Well, it is the World Trade Center, right?

Senator DECONCINI. I do not know where it is.

Mr. FONTAINE. I think so.

Mr. BIBB. That is the World Trade Center. We do have a major project planned for sprinklers in that building. I am not familiar with the specifics of their particular funding request. We can research that and get that information to you though.

Mr. EARLY. Mr. Chairman, I have spoken with the regional director up there. The scope requirements were not ready at the time that we were doing our planning cycle for the 1991 budget.

So they missed getting into our request. We are in agreement with their renovation requirements, space authorizations, and security needs. Since we do have an asbestos project there that we are funded for, we were going to include the Secret Service's critical needs in that project so that we can deliver it in October.

Secret Service, therefore, included in their request for both their part of the project and our part of the project cost. So of the total

cost there, about one-half of those dollars, \$1.6 million, would normally be funded anyhow. The other one-half would be our normal amount that we get in our cycle, but they also included it in theirs.

Senator DECONCINI. If we put it in your budget, would you support it?

Mr. EARLY. Our regional people indicate yes.

Senator DECONCINI. Does the Secret Service pay rent to the Federal buildings fund?

Mr. EARLY. Yes, sir; they do, but for unique space alterations.

Senator DECONCINI. Going back to the headquarters—excuse me.

Mr. AUSTIN. I was just going to say, Mr. Chairman, we build to a standard general office environment. Anything above that has to be reimbursed by the agency, whether it is the Secret Service or any other agency.

Senator DECONCINI. I see.

Going back to the Secret Service headquarters building, what is the schedule on that?

Mr. BIBB. Well, there is a major lease expiring in 1995. So we would be working with the Secret Service toward that timeframe. Obviously, you have to do your planning fairly quickly, perhaps in the next cycle, in the next fiscal year, to begin to prepare for that.

Senator DECONCINI. That money that we put in the budget last year you have not received; is that right?

Mr. EARLY. That is correct, sir. We are checking it out. We have heard by the grapevine that they are intending to talk to you about reprogramming. The timing is such that they do not believe that they will be giving the funds to us because it would not be needed this year. We are trying to confirm that.

Senator DECONCINI. OK.

Senator Kerrey, you were first to come in. Do you have any opening statement or questions?

Senator KERREY. No opening statement, Mr. Chairman, just a question, if it is time to do that.

Senator DECONCINI. Please. Yes, it is.

SURPLUS PROPERTY

Senator KERREY. We had a fire last year in the northwestern part of the State and we heard from some local officials who are trying to get some surplus equipment. I know there is a process that involves a State disposal office and I just ask you if you could give me some help with that.

Further, there has also been an inquiry about acquiring surplus property that hasn't been declared yet—and I know you are not responsible for determining what is available—but I am just curious and need to know for my local people if you have any suggestions regarding how these officials should proceed?

Mr. AUSTIN. Yes, Senator; they can do it in one of two ways. First, they can go back to their State surplus office operations, with which we have a contractual relationship, and enter our system to see what we have available. We have a computerized system that identifies everything that we have in the inventory, whether it be through the local government, through the State gov-

ernments, or whether it be for sale to the general public, having been screened for further use.

Second, they can come back that way or they can come back directly to GSA and talk with us. Again, the State surplus office would still have to play a role because we would have to go through them.

We are aware of your transmittal to us in terms of the request for additional fire fighting equipment and we are screening the inventory now to see what we do have out there. Obviously, for the Western part of the country and Southeastern part of the country, this is a high-priority item and there is not an awful lot of them in the inventory.

Usually, the fire services from the Federal Government winds up with anything that we have in terms of those items for their own fire fighting capabilities.

Let me also say, Senator, there is a second way that we do get involved in that area and that is through our Federal Supply Service sites. We have two centers, one in Stockton and one in Fort Worth. When a fire breaks out, we ship in supplies and fire fighting apparatuses that we have in our inventory in support of the fire services responsible for those fire control operations.

Senator KERREY. Well, this fire occurred last year and the State Game and Parks Commission has identified some items that would be useful. It was a fairly substantial fire, no loss of life, but a considerable loss of property. The conditions are there again. It is very dry in that part of the State and I would just point out the great difficulty that we would have if there was another fire and we find that it is just as a consequence of perhaps some bureaucratic conflict or some oversight that we were unable to get equipment that was available. So I just ask for your help in checking into this and expediting it. If the answer is no, I understand that, but if there is available equipment—

Mr. AUSTIN. Whatever we have in the inventory, Senator, we would be happy to make available.

Senator KERREY. We are coming up on the season where that area is going to be at risk again. I cannot state strongly enough how very dangerous the fire zone is. If there was a loss of life and we found that there was equipment available and it was something either my office did not do or your office did not do, I would personally feel very badly about it.

Mr. AUSTIN. We will go back and talk with your State area director on surplus property for that.

Senator KERREY. I appreciate it.

Thank you.

Senator DECONCINI. Is that all you have?

Senator KERREY. Yes, sir.

Senator DECONCINI. Senator Mikulski.

CHILD CARE

Senator MIKULSKI. Thank you, Mr. Chairman.

Mr. Austin, I want to congratulate GSA in its efforts in trying to take leadership in the area of child care. I know that certainly my colleague in the House, Congresswoman Collins, has been an advo-

cate of the policy and we have tried to work with your predecessors with the funding.

It is one of the big issues facing our country and the needs of our work force and we think the Federal Government ought to be a model employer. So we know that you are working on that and we want to thank you.

BUILDING RELOCATIONS

My questions are not to your overall budget, but to a new policy that has come up out of the White House and OMB changing the rules of the game on funding building construction.

We have worked very hard here on this and let me just tell you what the scoop is. I can go through the buildings. There was always the understanding that this would be done on a lease purchase basis. Now it is this 3 years up front and we are concerned that major relocation programs planned for the metropolitan area would be at risk; the U.S. Navy Headquarters in northern Virginia, if Senators Warner and Robb were here they would be raising this; the new EPA headquarters desperately needed and as it moves to cabinet level, should be in downtown District of Columbia; IRS moving to suburban Maryland, a courthouse desperately needed and authorized and appropriated; our health care finance agency, of course, you knocked out Gail Wilensky, attracted to be an administrator. She has got her folks spread out through all different kinds of buildings. One program, if you listen to the Federal employees as I do, since I am a hop away from Maryland, is a little super fund site. These buildings are needed. They have been discussed. The framework and so on is underway.

Now we are concerned that the budget authority will be insufficient to fund these programs if the OMB directive is followed.

Could you tell me what your thoughts are on this and how we are going to do this? We would not want the projects delayed or terminated and now we feel like the rules of the game are being changed.

Mr. AUSTIN. Senator, in terms of the Federal courthouse for southern Maryland, that is a direct-funded project out of GSA's existing funds and it is part of our 1991 budget. So that will be going forward. That is not contingent upon the amendment to the budget.

In terms of the \$2.4 billion amendment that is requested, among other projects, the Navy project, and the IRS project, if we do not get the \$2.4 billion, then we have no projects.

Senator MIKULSKI. And you expect it out of this committee?

Mr. AUSTIN. Ma'am?

Senator MIKULSKI. Where do you expect this money to come from? [Laughter.]

Mr. AUSTIN. I asked the chairman for it earlier. [Laughter.]

Obviously, as you look at the issues surrounding it, and as I said earlier, if you look at the scoring issue in particular, because that is what both the Congressional Budget Office and OMB looked at, then you look at what is the least costly and the least costly obviously is the direct funding at \$2.4 billion. The next least costly is the least cost financing and that is between \$8.4 and \$9.6 billion

over 30 years and then the most costly is just outright leasing, which would be the only avenue that would be available to us in the absence of either direct appropriations or least cost financing and that one comes in at about \$14 billion.

We thought we had a process that was viable in terms of least cost financing. We thought we were moving forward in that until the issue of scoring raised its head and in that instance we have not been able to resolve that issue with OMB or with CBO.

Senator MIKULSKI. Well, our concern is that these projects that I enumerated were proceeding and I understand these problems in the scoring and so on, but my question then becomes we are changing the rules in the middle of the game. We are changing the rules once these appropriations are underway and if OMB wants to follow this directive, then why not do it on the next round of projects that are coming up and not the ones that are underway now.

Mr. AUSTIN. Well, OMB has also indicated, Senator, that they want to create a task force of GSA, DOD, and VA to sit down and look at two things, one being total space requirements. What is the need that is out there?

As I indicated earlier, one would be, I think, inappropriately mislead if they thought that the 21 projects were the total amount needed by GSA. In fact, we have probably 4 or 5 projects already identified to follow the 21.

Second, after that task force has assessed what the universal need is between the three largest landholding agencies, we would then sit down and try to address the issues of the scoring.

Senator MIKULSKI. We are formulating our appropriations and I am going to turn to the chairman for his comments because it is not only those in our agency. It is the EPA headquarters. It is not only the projects in Maryland. We have been trying to work in a very orderly way to resolve a very critical political issue.

I did ask about the Health Care Finance Administration, for which we appropriated \$90 million in fiscal year 1990. Would you check on the HCFA consolidation and how it is proceeding?

Mr. AUSTIN. I certainly will.

Senator MIKULSKI. Are you aware of what the status of the—

Mr. EARLY. Well, we received last year lease purchase authority for a project up there. We were discussing this morning whether we can go ahead with that or not and there is still some uncertainty on whether—

Senator MIKULSKI. HFCA would also be uncertain, is that not right?

Mr. AUSTIN. In terms of the scoring issues. Yes.

Mr. FONTAINE. Because you realize what happened at the University of Maryland and the Archives; they were scored retroactively.

Senator MIKULSKI. Yes; I understand that. But coming back to OMB's argument and I will turn to the chairman for his important views on this, it seems that OMB is talking their cost in borrowing, not their cost of construction. And we understand the cost of borrowing. But when we come down to it, private construction, as I understand it, is cheaper. So we could argue those things back and forth.

What I am concerned about is that OMB wants to solve its problem and the way they are keeping score and a variety of other things. This might or might not solve the problem for these agencies and I will tell you, they are ready to go and they are quite desperate. I could turn this into a big speech, but Bill Reilly, the facility that he is in, in and of itself, is an environmental hazard, toxic rugs. We have held hearings on this, an EPA hearing. The Health Care Finance Administration, you have got the maintenance people keeping people going and they have actually had to rent a motel and try to convert that into space. We are wasting money. We are wasting time and we are wasting morale, which I think when you talk about productivity, is important.

So, what do you think?

Senator DeCONCINI. If the Senator would yield.

We have hashed this around and I think Mr. Austin has convinced me that they have tried to make the case to OMB and have indicated they will continue to make the case. We are going to make it when Mr. Darman comes up here, but having worked with him a number of years, I am not too sure I am going to be convincing. It is going to come down to one 302 allocation, I am afraid, unless we can get OMB to change its position. OMB is even applying this to retroactive lease purchases. So, now we have got to pick up all the lease purchases we did, which they had agreed to before.

So it is going to be difficult if we do not get some consideration from OMB. We are going to have a problem unless we get lucky at 302(b) and get what we need.

Senator MIKULSKI. Will this also affect VA with VA hospitals and VA parking lots?

Mr. FONTAINE. Well, the implication is certainly there.

Mr. AUSTIN. Mr. Chairman, if I may, just a couple of comments.

Senator DeCONCINI. Sure.

Mr. AUSTIN. No. 1, the only two retroactively scored projects that OMB has actually indicated at this point are the Judiciary Building and the Archives II project.

Mr. FONTAINE. The archives at College Park.

Mr. AUSTIN. Now the issue of—

Senator DeCONCINI. But is it because the other ones are not ready to go?

Mr. AUSTIN. I am not sure what the rationale is. We are still trying to get clarification of what is going to happen to Foley Square and what is going to happen to Oakland. We just recently signed the Oakland contract, as a matter of fact, last Friday. So we are still trying to find out on a number of other projects that we currently have exactly what the policy is.

Senator DeCONCINI. Well, you think they might not score those that way?

Mr. AUSTIN. There was discussion—let me add just two other sites. The Chicago site, I understand, will not be scored that way. Now it may have changed in recent discussions, but there is also the discussion of how we are going to deal with the ICTC and how we are going to score that project as well.

There are still a lot of uncertainties—

Senator DeCONCINI. Are you telling me that they may have a mixture of scoring, ones that we have already done that are lease purchase will be scored and some that they will not?

Mr. AUSTIN. There may be that possibility.

Senator DeCONCINI. On a case-by-case basis or something?

Mr. AUSTIN. Perhaps based on the timing of the award.

Mr. FONTAINE. I do not think they know frankly.

Senator DeCONCINI. You do not think they know?

Mr. EARLY. That is the discussion we have had with them.

Mr. FONTAINE. It has not been settled.

Senator DeCONCINI. They have not settled it?

Mr. EARLY. They have tried to make it clear that there is a policy. This is one of those policies where there may be multiple ways of scoring and that the Archives and the Judiciary Building are to be considered a form of Federal borrowing for scoring purposes.

Chicago appears to be private sector borrowing and seemingly it is OK, but they have not been willing to be that clear and to say we will accept multiple avenues. It is still up in the air.

Mr. AUSTIN. It gets a little more confusing in the sense that the position has been ostensibly that if they take the position that the full faith and credit of the Federal Government is behind it, then it needs to be scored.

If it is done by a private contractor and that contractor assumes the total risk, and I do not know how you do that in terms of the private sector going to a lending institution to get that escape clause there, then that does not have to be scored because the risk is on the developer and not on the Federal Government.

Senator DeCONCINI. Well, but when a developer constructs a building for you, you enter into more than a 1-year lease with them?

Mr. AUSTIN. Oh, sure. We sign for the full term.

Senator DeCONCINI. You sign for a full term and is that enforceable?

Mr. AUSTIN. Oh, yes.

Senator DeCONCINI. Yes.

Mr. AUSTIN. And there is no funding out clause in there.

Mr. EARLY. That is the reason OMB is beginning to look at the leases again because they are saying that since it is a contract term for more than 1 year, then possibly the full-term amount should be scored.

Senator DeCONCINI. The post office used to only lease for 1 year. I mean they would say, we want a 10-year lease. We can only by law give you a 1-year lease, but believe me, they would renew it—

Mr. FONTAINE. It is expensive to do that though.

Senator DeCONCINI. That is very expensive to do.

Mr. AUSTIN. Well, the other thing we found with our own leases, Mr. Chairman, is that if you go to a lessor and say I want to lease your facility for 10 years, but I want a termination for convenience clause so that if something happens in year four, I can back out of the lease, we found ourselves not getting any leases. No one was responding.

Senator DeCONCINI. Thank you.

Anyone else have any further questions?

Senator MIKULSKI. Mr. Chairman, I just want to conclude by saying this, I think this is a real mess. [Laughter.]

Mr. FONTAINE. Amen.

Senator MIKULSKI. And there is no way that this chairman, nor even our most successful advocacy could get a 302(b) that could accommodate all of these concerns.

It also will wreak havoc with the subcommittee I chair, the Veterans Affairs Department facilities which we are trying to upgrade. Secretary Derwinsky hopes to make the facilities more contemporary not only in terms of modernizing, but accommodating long-term needs, many of these things—and I will tell you, there is just not—we truly, genuinely could not, accommodate all of this, and particularly, in this year's situation.

We are going to talk with Mr. Darman at this hearing. I know the chairman has to leave and so do I. We would really appreciate you keeping us posted on the task force conversations so that we can at least meet with these other executive branch people to raise the right questions and perhaps arrive at this in a way that meets what essentially cabinet level people and independent agencies think they are going to be able to do to accommodate their administrative and employee needs.

Mr. AUSTIN. We would be happy to.

Senator DECONCINI. I want to thank the Senator from Maryland for her willingness to get involved in this issue because I think we need to sit down with Mr. Darman. Maybe you as the chairman of your subcommittee and your ranking member will join us.

Senator MIKULSKI. I am going to turn the American Legion on him. [Laughter.]

Mr. FONTAINE. If I may suggest, you have his deputy there because Mr. Darman will recuse himself.

Senator DECONCINI. Will he?

Mr. FONTAINE. He will. He was involved in his previous world.

Senator DECONCINI. Mr. Kerrey is going to take over the balance of the hearing.

Thank you, Senator, very much.

Gentlemen, I have—

Mr. FONTAINE. But your House counterparts have the same problem, right?

Senator DECONCINI. Sure.

Senator MIKULSKI. All the best to everybody. I think we will be seeing a lot of you. [Laughter.]

SUBMITTED QUESTIONS

Senator KERREY [presiding]. We have no further questions at this time but will submit questions for the record.

Mr. AUSTIN. Thank you, Senator. We will be happy to respond.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

INSTALLMENT ACQUISITION PAYMENTS - CHICAGO, ILLINOIS

QUESTION:

I notice that \$5.5 million is being requested in your fiscal year 1991 budget for Installment Acquisition Payments for the Chicago Federal Building, authorized as a lease purchase project in fiscal year 1987. Can you tell the Committee why this additional appropriation is required in fiscal year 1991?

ANSWER:

In the fiscal year 1991 budget request GSA has changed the title of the Purchase Contract Payments activity to the Installment Acquisition activity. This activity has historically funded the financing of Purchase Contracts authorized by the Public Buildings Amendments of 1972. Commencing in fiscal year 1991, it will also include annual payments on lease purchase arrangements currently authorized by Congress.

Since 1987 Congress has authorized GSA to enter into twelve lease purchase arrangements. These lease purchase arrangements require the Government to make periodic payments on those facilities over varying periods commencing with occupancy of the building. The first of these facilities to be occupied is the new Federal Building located in Chicago, Illinois. Payments on this facility are scheduled to commence in the latter part of fiscal year 1991.

Under the scoring procedures in effect at the time that the Chicago project was authorized there was no upfront scoring of the project. New obligational authority will be required annually as payments of principal and interest are made.

FISCAL YEAR 1991 BUDGET AMENDMENT - BUDGET AUTHORITY

QUESTION:

I don't know if this Subcommittee will receive the full amount of budget authority needed to approve the Budget Amendment in fiscal year 1991. If the full amount of \$1.4 billion is not available for the 21 buildings requested, would there be enough revenue in the Federal Buildings Fund to earmark new obligational authority from the Fund for those projects? Could the Congress simply earmark new obligational authority for direct construction purposes without appropriating new money to the Federal Buildings Fund?

ANSWER:

The fiscal year 1991 Budget Amendment requests an appropriation to the Federal Buildings Fund (FBF) of \$2.4 billion for the site, design, and construction of eight of the 21 buildings identified in the joint GSA/OMB study of future Federal office space requirements. The Amendment language further requests that \$1.4 billion of the \$2.4 billion appropriation to the FBF be made available in fiscal year 1991 as New Obligational Authority (NOA) to proceed with five of the eight projects identified in the Amendment. The balance of the \$2.4 billion appropriation would be requested as NOA in fiscal years 1992 and 1993 to complete the eight projects. Our revenue and expense projections indicate that resources will not be available to the FBF in fiscal years 1991 through 1994 to fund any of the eight projects in the Amendment. Therefore, Congress cannot provide NOA for these projects without appropriating funds to the FBF in a similar amount.

Of the other 13 projects identified in the GSA/OMB study: eight are proposed for funding in the fiscal year 1991 President's Budget from the existing resources of the FBF; and five are proposed for future year funding from the resources of the FBF. One of these five, EPA, is currently authorized as a lease purchase project.

LONG-TERM LEASES

QUESTION:

I understand that the total cost of new leases to be let starting in fiscal year 1991; escalation in lease costs which will require new leases; and lease renewals will total \$1.069 billion in fiscal year 1991. Under the Administration's new scoring scheme, any long-term leases would require all of the budget authority up front. Can you tell the committee what portion of the estimated \$1.069 billion is for long term leases?

ANSWER:

It is not yet clear to us that long term leases will require up front scoring. We are still awaiting definitive guidance on this issue; however, GSA currently estimates that exclusive of lease cancellations which are by definition short term (\$.024 billion), contractual liabilities for leased space will increase by \$1.093 billion in fiscal year 1991. Historically, about 62 percent of the dollar value of GSA's leases are for leases longer than 5 years. Therefore, the estimated contractual liability for leases in excess of 5 years will be \$678 million.

RENTAL OF SPACE COSTS

QUESTION:

Your budget justification states that "Unless significant reductions are made to the leased space inventory, the Rental of Space budget", estimated to cost \$1.534 billion in fiscal year 1991, "will reach \$2 billion by the mid to late 1990's." How will the Budget Amendment reduce these Rental of Space costs over the next 8-10 years?

ANSWER:

The Budget Amendment will finance the building of 9.7 million occupiable square feet of government owned space. The additional government owned space will enable GSA to avoid leasing an equivalent amount of space, in order to meet federal agency housing requirements.

1991 APPROPRIATIONS REQUEST

QUESTION:

Your fiscal year 1991 budget includes only \$10.218 million in Repairs and Alterations for U.S./Mexico border facilities. This amount will only fund Ysleta (9.044 million) and Calexico (\$1.174 million). Your justification shows that the \$9.044 million for Ysleta will fully fund the new station. For Calexico, however, I understand the estimated cost for this new facility will be in the range of \$43 million, yet the funds appropriated to date (\$2.480 million) and the 1991 request will only complete the design work. Why aren't funds being requested for construction on this facility in fiscal year 1991?

ANSWER:

GSA is working with the inspection agencies to refine the scope of work for the new station at Calexico. When the requirements have been defined and the Architectural Engineering firm has developed a preliminary cost estimate, GSA will request construction funding.

BORDER STATION FUNDING

QUESTION:

Please provide the Committee with a list of projects by amount funded to date, and identify the amount of unobligated balances for each that may not be expended this fiscal year? Can you also identify projects where funding shortfalls exist?

ANSWER:

Attached is a spread sheet with financial information on the border station projects. Of the \$147 million that has been appropriated to date it is anticipated that approximately \$80 to \$90 million will be obligated by the end of 1990. The two projects that have possible current funding requirements are the Paso del Norte and Bridge of the Americas border stations in El Paso, Texas. The bids for these projects are to be opened shortly. At that time GSA will be better able to assess the funding requirements.

U.S./MEXICO BORDER STATION INITIATIVE - PROGRAM SUMMARY

PROJECT	Total Project Cost	FY 88 Appropriation	FY 89 NET * Appropriation	FY 90 Appropriation	FY 91 Budget	Unfunded Cost Col 1 - (2,3,4,5)
ANTELOPE WELLS, NEW MEXICO						
1. Glass/TV/Housing	\$350,000	\$299,000	\$51,000	\$0	\$0	\$0
COLUMBUS, NEW MEXICO						
1. Glass/TV	\$201,000	\$200,000	\$1,000	\$0	\$0	\$0
SANTA TERESA, NEW MEXICO						
1. Design and build new station	\$6,730,000	\$378,000	\$200,000	\$6,152,000	\$0	\$0
WN Subtotal	\$7,281,000	\$877,000	\$252,000	\$6,152,000	\$0	\$0
AMISTAD DAM, TEXAS						
1. R&A	\$150,400	\$0	\$150,400	\$0	\$0	\$0
BROWNSVILLE, TEXAS						
Gateway Bridge						
1. Security	\$250,000	\$32,000	\$218,000	\$0	\$0	\$0
2. Lane expansion	\$1,450,000	\$196,135	\$1,253,865	\$0	\$0	\$0
3. R&A/Extension	\$8,999,135	\$1,200,000	\$7,799,135	\$0	\$0	\$0
BBM Bridge						
1. Replace station	\$5,567,500	\$1,173,000	\$4,394,500	\$0	\$0	\$0
Los Indios						
1. New station	\$8,561,700	\$587,000	\$105,700	\$1,535,000	\$0	\$6,334,000
DEL RIO, TEXAS						
1. Security	\$250,000	\$250,000	\$0	\$0	\$0	\$0
2. Lane expansion	\$2,319,700	\$445,000	\$1,874,700	\$0	\$0	\$0
3. Station expansion	\$12,717,300	\$3,465,000	(\$1,220,000)	\$0	\$0	\$10,472,300

U.S./MEXICO BORDER STATION INITIATIVE - PROGRAM SUMMARY

PROJECT	Total Project Cost	FY 88 Appropriation	FY 89 NET * Appropriation	FY 90 Appropriation	FY 91 Budget	Unfunded Cost Col 1 - (2,3,4,5)
EAGLE PASS, TEXAS						
1. Security/R&A	\$6,829,800	\$480,000	\$4,947,800	\$1,402,000	\$0	\$0
EL PASO, TEXAS						
Bridge of the Americas 1. Design/R&A	\$15,601,500	\$1,292,200	\$700,300	\$7,208,000	\$0	\$6,401,000
Paso del Norte 1. Extension/R&A	\$4,000,400	\$2,850,000	\$1,150,400	\$0	\$0	\$0
Ysleta 1. Design/construct (FY85 approp. of \$7,736,800)	\$11,695,320	\$2,651,320	\$0	\$0	\$9,044,000	\$0
FABENS, TEXAS						
1. Glass/TV/Site Acquisition	\$544,800	\$100,000	\$444,800	\$0	\$0	\$0
FALCON DAM, TEXAS						
1. R&A	\$710,400	\$400,000	\$310,400	\$0	\$0	\$0
FT. HANCOCK, TEXAS						
1. Glass/TV	\$100,000	\$100,000	\$0	\$0	\$0	\$0
HIDALGO, TEXAS						
1. Safety/design/R&A	\$1,399,710	\$289,510	\$1,110,200	\$0	\$0	\$0
LAREDO, TEXAS						
Juarez-Lincoln Bridge 1. Site/design/R&A	\$28,951,000	\$5,745,000	(\$2,473,400)	\$0	\$0	\$25,679,400
Railroad Bridge 1. Replace	\$18,000	\$18,000	\$0	\$0	\$0	\$0
Convent Street 1. Design upgrade	\$3,301,110	\$301,710	\$2,999,400	\$0	\$0	\$0
LOS EBANOS, TEXAS						
1. Replace station	\$250,000	\$150,000	\$100,000	\$0	\$0	\$0
MARATHON, TEXAS						
1. Repair	\$0	\$0	\$0	\$0	\$0	\$0
PRESIDIO, TEXAS						
1. Security	\$300,000	\$300,000	\$0	\$0	\$0	\$0
PROGRESO, TEXAS						
1. Security/R&A	\$400,400	\$255,000	\$345,400	\$0	\$0	\$0
RIO GRANDE CITY, TEXAS						
1. Improvements	\$60,000	\$60,000	\$0	\$0	\$0	\$0
ROMA, TEXAS						
1. Safety	\$650,000	\$650,000	\$0	\$0	\$0	\$0
TX Subtotal						
	\$115,278,175	\$22,990,875	\$24,211,600	\$10,145,000	\$9,044,000	\$48,886,700
Region 7 Subtotal						
For FY 88 Authorized Program	\$122,559,175	\$23,867,875	\$24,443,600	\$16,297,000	\$9,044,000	\$48,886,700

U.S./MEXICO BORDER STATION INITIATIVE - PROGRAM SUMMARY

PROJECT	Total Project Cost	FY 88 Appropriation	FY 89 NET * Appropriation	FY 90 Appropriation	FY 91 Budget	Unfunded Cost Col 1 - (2,3,4,5)
DOUGLAS, ARIZONA						
1. New facility, R&A, and safety	\$5,441,700	\$346,000	\$1,095,700	\$4,000,000	\$0	\$0
LUKEVILLE, ARIZONA						
1. R&A and safety	\$638,100	\$213,000	\$425,100	\$0	\$0	\$0
NACO, ARIZONA						
1. New facility, R&A, and safety	\$3,892,600	\$242,000	\$153,100	\$0	\$0	\$3,497,500
NOGALES, ARIZONA						
Grand Ave./Morley Gate 1. R&A and safety	\$14,338,310	\$557,310	\$1,354,000	\$12,427,000	\$0	\$0
2. Station expansion	\$2,484,900	\$64,000	\$2,420,900	\$0	\$0	\$0
Mariposa (Nogales West) 1. R&A and safety	\$5,556,630	\$390,830	\$876,800	\$4,289,000	\$0	\$0
SASABE, AZ (new project)						
1. New Facility, R&A, and safety	\$3,449,100	\$0	\$264,100	\$0	\$0	\$3,185,000
SAN LUIS, ARIZONA						
1. R&A and safety	\$1,472,900	\$185,600	\$1,287,300	\$0	\$0	\$0
AZ Subtotal	\$37,274,240	\$1,998,740	\$7,877,000	\$20,716,000	\$0	\$6,682,500
AMORADE, CALIFORNIA						
1. New facility, R&A, and safety	\$7,097,956	\$243,000	\$454,300	\$0	\$0	\$6,400,656
CALEXICO, CALIFORNIA						
1. New commercial station	\$43,875,000	\$880,000	\$1,600,000	\$0	\$1,174,000	\$40,221,000
2. Safety/Asbestos	\$9,486,220	\$655,000	\$4,830,900	\$4,000,320	\$0	\$0
3. R&A	\$628,790	\$628,790	\$0	\$0	\$0	\$0
SAN YSIDRO/OTAY MESA, CA						
1. R&A/Virginia St.	\$582,983	\$75,000	\$367,000	\$0	\$0	\$140,983
2. Safety San Ys/Otay	\$8,390,253	\$2,350,353	\$2,673,900	\$3,366,000	\$0	\$0
3. R&A	\$17,368,264	\$1,172,980	\$0	\$0	\$0	\$16,195,284
4. Firearms range project cancelled	\$0	\$350,000	(\$350,000)	\$0	\$0	\$0
5. Reconfigure lanes	\$95,520	\$95,520	\$0	\$0	\$0	\$0
6. Signs/security	\$2,478,217	\$517,000	\$0	\$0	\$0	\$1,961,217
7. New Facility/Otay	\$23,334,411	\$6,500,000	\$721,700	\$2,000,000	\$0	\$14,112,711
8. Otay comm. lot, R&A, signs/security	\$5,368,950	\$456,950	\$3,456,200	\$4,302,000	\$0	(\$2,846,200)
TECATE, CALIFORNIA						
1. New Station and R&A	\$11,758,134	\$886,872	\$2,361,800	\$0	\$0	\$8,509,462
CA Subtotal	\$130,466,698	\$14,811,465	\$16,115,800	\$13,668,320	\$1,174,000	\$84,695,113
Region 9 Subtotal	\$167,738,938	\$16,810,205	\$23,992,800	\$34,384,320	\$1,174,000	\$91,377,613
Region 7 Subtotal	\$122,559,175	\$23,867,875	\$24,463,600	\$16,297,000	\$9,044,000	\$48,886,700
PROGRAM TOTAL For FY 88 authorized program	\$290,298,113	\$40,678,080	\$48,456,400	\$50,681,320	\$10,218,000	\$140,264,313

U.S./MEXICO BORDER STATION INITIATIVE - PROGRAM SUMMARY

PROJECT	Total Project Cost	FY 88 Appropriation	FY 89 NET * Appropriation	FY 90 Appropriation	FY 91 Budget	Unfunded Cost Col 1 - (2,3,4,5)
PROJECTS ADDED SINCE FY 1988						
BROWNSVILLE, TEXAS						
Brownsville III (Los Tomatoes)	\$12,000,000	\$0	\$480,000	\$0	\$0	\$11,520,000
LAREDO, TEXAS						
New bridge (Columbia)	\$17,991,000	\$0	\$1,000,000	\$4,000,000	\$0	\$12,991,000
TOTAL NEW PROJECTS	\$29,991,000	\$0	\$1,480,000	\$4,000,000	\$0	\$24,511,000
TOTAL FY 88 PROJECTS	\$290,298,113	\$40,678,080	\$48,456,400	\$50,681,320	\$10,218,000	\$140,264,313
TOTAL ALL PROJECTS	\$320,289,113	\$40,678,080	\$49,936,400	\$54,681,320	\$10,218,000	\$164,775,313

REPROGRAMMING FOR THE U.S./MEXICO BORDER FACILITIES

QUESTION:

Do you intend to submit a reprogramming to the Committee by July which will provide up to \$10 million from unobligated balances to the U.S./Mexico Border Facilities? If not, why not? If so, when can the Committee expect to receive the reprogramming?

ANSWER:

GSA expects to send up a reprogramming request by July for the border station improvement program. GSA is currently evaluating its reprogramming requirements. The two projects that have possible current funding requirements are the Paso del Norte and Bridge of the Americas border stations in El Paso, Texas. The bids for these projects are to be opened shortly. At that time GSA will be better able to assess the funding requirements. Once this assessment of needs is done, GSA will be better able to determine the scope of the reprogramming request.

NEW PORT OF ENTRY AT IMPERIAL BEACH

QUESTION:

What is the status of the study on a proposed new Port of Entry at Imperial Beach? What potential problems, if any, do you see with this particular project?

ANSWER:

The proposal for a new station west of San Diego in the Imperial Beach area is currently under way as a joint study by the General Services Administration and the U.S. Customs Service. GSA has contacted federal, state, and local groups and agencies to obtain their views on the crossing. During the U.S. - Mexico border walk in February, the delegation of U.S. and Mexican officials toured potential crossing sites and attended a presentation by the Tijuana Tourist Board that stressed the need for speedier access into San Diego from Mexico. At the subsequent bilateral meeting with Mexico in March, the Imperial Beach crossing was discussed again. Based on the above work, GSA and the U.S. Customs Service expect to provide a joint report to Congress shortly. This report will address potential problems.

QUESTION:

Do you believe a new port is warranted for this area? Why can't the Virginia Street port be expanded to accommodate traffic from this area?

ANSWER:

Traffic across the border between San Diego and Tijuana is extremely heavy. GSA is currently involved in border station repairs and alterations, expansion, and the construction of a new commercial station in the San Diego area. These projects, in conjunction with appropriate manning levels by the inspection agency staffs, will provide some relief to the current problems. The need for additional facilities, or administrative remedies such as special lanes, will require additional study by the inspection agencies and GSA in cooperation with the state, local and private interests in both the United States and Mexico.

HAZARDOUS WASTE FACILITIES AT EACH PORT OF ENTRY**QUESTION:**

Can you estimate what the total costs would be to provide separate hazardous waste facilities at each Port of Entry?

ANSWER:

The containment of hazardous materials is an issue of concern to GSA and the inspection agencies. At this point all parties are trying to define the scope of the problem and what level of response, both from a facilities and manpower viewpoint, is needed. GSA, particularly through the regional task force meetings in regions 7 and 9, is involved in working on the problem. When the precise nature of the needs is worked out, cost estimates can be made.

SAN FRANCISCO FEDERAL BUILDING**QUESTION:**

What is the status of site acquisition for the new San Francisco Federal Building? Has the city offered to donate any property to date for the site for this building?

ANSWER:

GSA and the City of San Francisco have met to discuss a proposed site at 3rd and King Street. GSA is now waiting for a formal offering of the site, which is owned by Sante Fe Realty, from the City Government. To date, the city of San Francisco has not offered a suitable site. GSA has requested city officials to explore alternative sites along the King Street corridor in Mission Bay.

LAKELAND, FLORIDA FEDERAL BUILDING**QUESTION:**

What is the status of the proposed new Federal Building at Lakeland, Florida?

ANSWER:

Public Law 100-440, dated September 22, 1989, authorized new construction and contained funding for a new Federal Building in Lakeland, Florida, in the amount of \$14,000,000 (including funds

for site and expenses). This law also: 1) exempted this project from prospectus approval under the Public Buildings Act of 1959, as amended; and 2) authorized GSA to sell, at competitive bid, the Federal Building located at 124 South Tennessee Avenue in Lakeland and to deposit the proceeds into the FBF.

In October of 1989 a proposal was developed for two potential buildings; one of 21,000 square feet and one of 26,500 square feet. The larger building would include 5,670 square feet of space for the U.S. District Court (construction cost range of about \$3-4 million for either building).

The Acting Administrator approved the 21,000 square foot proposal but did agree to accommodate the courts if Lakeland were to be designated as a statutory location for holding court. Congressman Andy Ireland was then to contact the Administrative Office of the U.S. Courts to determine whether to pursue legislation to allow the courts to hold court in Lakeland. On March 21, 1990, Congressman Ireland wrote to the Acting Administrator and advised that GSA should only plan on accommodating office space for a visiting judge and some potential for expansion. Therefore, the new building should be designed for approximately 23,000 square feet. This new information has been conveyed to our regional office and site selection has just begun in accordance with same information. A design and construction schedule is being developed and will be conveyed to the Committee when completed.

OPPORTUNITY PURCHASE OF BUILDINGS

QUESTION:

The Congress provided \$500,000 in fiscal year 1990 for the option purchase of commercial buildings. I notice that no funds are being requested in fiscal year 1991 to continue this program.

Can you please explain to the Committee how the \$500,000 has been allocated to date and why no funds are being requested to continue this program in fiscal year 1991?

ANSWER:

Funding provided in fiscal year 1990 has not been allocated. When added previous year funding, the total available funding is \$47 million. For the foreseeable future, GSA intends to put primary emphasis on direct Federal construction. The projects to be constructed, as envisioned in the program, will deliver special purpose space and much larger volumes of space than the Building Purchase program and should result in the elimination of much of GSA's project backlog.

It is anticipated that the bulk of funding in the Building Purchase Program will become part of a fiscal year 1990 reprogramming request to accomplish other critical needs. The remainder will be reserved for small purchases.

QUESTION:

What buildings have been purchased through this program in the past and what savings do you believe will accrue to the Federal government as a result?

ANSWER:

GSA has effectively utilized funds in the Building Purchase Program to reduce reliance on costly leased space. The Program, which began in 1983, has resulted in the acquisition of 13

buildings adding 3.5 million square feet to the Government-owned inventory at a cost of \$305 million. Based on individual economic analyses completed during proposal development, long-term present value savings amounting to \$190 million will accrue to the Federal government when compared to leasing comparable space. An historical summary of Building Purchase activities is attached.

BUILDING PURCHASE PROGRAM
SUMMARY REPORT
(OSF in thousands, \$'s in millions)

<u>Building</u>	<u>Location</u>	<u>Date</u>	<u>OSF</u>	<u>Price</u>
Griffin Square	Dallas, TX	2/83	160	\$ 7.2
Judiciary Square	Washington, DC	6/84	85	13.4
IRS/VA Center	Austin, TX	4/85	610	27.3
Brickell Plaza	Miami, FL	9/86	137	13.9
One White Flint North	Silver Spring, MD	11/86	277	47.5
IRS Service Center	Chamblee, GA	12/86	320	13.3
Metro Center, Phase 1	Silver Spring, MD	2/87	113	21.9
Concorde Tower	Houston, TX	9/87	295	26.5
Alliance Tower	Houston, TX	9/87	198	14.0
Colonnade Center	Denver, CO	9/87	153	16.0
Bonneville Tower	Las Vegas, NV	9/87	62	9.9
Peachtree Summit	Atlanta, GA	3/88	790	68.9
Centre V	Dallas, TX	5/88	290	25.5
Program Total			3,490	\$305.3

OSF - occupiable square feet

GM&A REIMBURSABLE PROGRAM

Question: Your fiscal year 1991 budget proposes to reduce the General Management and Administration direct appropriation by \$49.9 million and 855 full-time equivalent positions for internal accounting support functions and shift this requirement to the reimbursable program. Your justification states that this action will permit GSA revolving funds to more closely reflect the cost of doing business in the pricing policies. Can you explain to the Committee what specific accounting support functions will be shifted to a reimbursable activity in FY '91 and explain why these activities should be funded on a reimbursable basis?

Answer: The President's 1991 Budget proposes the conversion of GSA's internal centralized accounting and payroll support functions from direct GM&A appropriation to reimbursable funding from GSA's benefiting accounts which are principally industrially funded. The amounts included in the benefiting accounts for reimbursement to GM&A are based on providing accounting services (i.e., payment of invoices and collection of income and

preparation of accounting reports) and the per capita cost of payrollling employees. The cost of these support services to the industrially funded benefiting accounts such as the General Supply Fund and Information Technology Fund are in turn factored into the prices and rates charged to their customer agencies for services provided. This proposal is consistent with the principles embodied in GSA's currently established industrially funded accounts wherein the true costs of providing services are assessed to the benefiting customer agency.

Question: What will be the impact of shifting this activity to a reimbursable activity?

Answer: The impact of this proposal on GSA's FY 1991 direct budget is a consequent decrease in the appropriation requested for GM&A. GSA is now predominately industrially funded with an annual business volume approaching \$9 billion. Currently, annual direct appropriations are under \$300 million or less than 3% of the total business volume.

Question: Your GMA budget is being increased by \$5.214 million and 89 work years for financing programs which were previously reimbursable to GMA. Can you explain why these specific activities will be funded through the direct program while other finance activities will be shifted to the reimbursable program?

Answer: Each of the activities for which we have proposed a conversion from reimbursable to direct funding in FY 1991 was selected in order to improve the financial aspects of its program administration. For example, the Business Service Centers program has been financed by reimbursements from other GSA accounts but has operated under the supervision of the direct funded Policy Direction activity. Also, the reimbursably funded Cooperative Administrative Support Unit and the intra-agency training programs have been operating under the supervision of the direct funded Administration activity. The proposed change in funding for these programs will align the funding of these activities with that of the offices of which they are a part, thereby eliminating several split funding arrangements, which will simplify the overall execution of these programs. In contrast we are proposing that our entire centralized finance/accounting operation be converted from direct to reimbursable funding for the purpose of furthering our goal of associating as much of the costs of supporting a program with the product as practical. This will realign more closely the cost of providing the service with the recipient of those services.

BOARD OF CONTRACT APPEALS LAW CLERK PROGRAM

QUESTION: Your fiscal year 1991 budget proposes an increase of \$642,000 and 13 work-years for the establishment of a law clerk program within the Board of Contract Appeals. In fiscal year 1990 the committee requested GSA to conduct a review of the need for a law clerk program. I would assume that since funds for the program are included in your 1991 budget request, that the review must have concluded that the law clerk program would be useful in case backlogs before the board. Am I correct in this assumption?

ANSWER: Yes. Law clerks will increase the productivity and efficiency of the Board at a modest cost, and will be useful in addressing case backlog. Law clerks will assist in handling motions and routine matters in cases; they will conduct research and draft opinions and orders. This will provide more time for the Board Member to devote to matters where his particular expertise is best suited. It is expected that the law clerks will

be particularly helpful in large claims over \$50,000 which simply have a lesser priority than ADP protests which, by law, must be resolved within 45 working days, or small claims and accelerated procedures elections which must be resolved within 120 and 180 days, respectively.

There is no question that assistance of law clerks in the research, preparation, and disposition of cases will greatly improve productivity. Board Members now work long hours each and every day and virtually every weekend. We have even placed computer terminals in the homes of many employees and Board Members to encourage additional work and higher productivity through work at night and on weekends. The Board has simply reached its limit, and law clerks, as is traditional in similar tribunals, would be of great assistance.

Law clerks will be hired for two-year terms which will avoid the escalation in personnel costs associated with permanent staff over a period of years. A two-year term is the period of time that law clerks are normally hired for in the Claims Court, the Court of Appeals for the Federal Circuit, and other tribunals.

Please note that the Board is an independent judicial tribunal within the framework of the General Services Administration that operates as a trial court for contract claims against several departments and agencies; the Board is also the tribunal that hears disputes relating to the proposed award or award of information resource contracts (ADP and telecommunications) of agencies governmentwide. The Board is a sister tribunal to the Claims Court; its cases may be appealed by either the government or a contractor to the Court of Appeals for the Federal Circuit, which is also the appellate authority for the Claims Court. Thus, the decisions of the Board have the same effect as a decision of the Claims Court; the Board Members, unlike administrative law judges, stand in shoes like those of the judges of the Claims court, Bankruptcy Court Judges, and magistrates in the federal court system. Tribunals like the Claims Court, and Bankruptcy Court Judges and Magistrates too, that can be likened to Board Members, traditionally have used law clerks to provide assistance in cases before them.

SMALL AND DISADVANTAGED BUSINESS PROGRAM

Question: Your direct budget also proposes an increase of \$717,000 and 11 workyears for the small and disadvantaged business activity in fiscal year 1991. Why is this program proposed for transfer from the Public Buildings Service to General Management and Administration?

Answer: The Small and Disadvantaged Business program has been proposed for transfer from the Public Buildings Service to the Policy Direction activity of the General Management and Administration appropriation because its functions are closely aligned with those of the Business Service Centers, also proposed for funding from the Policy Direction activity. Therefore this change in funding will place both of these programs within the Policy Direction activity and thus further associate like functions with like funding arrangements.

FISCAL YEAR 1991 CENTRALIZED SERVICES ACTIVITY

QUESTION:

In fiscal year 1991, the centralized services activity will increase by \$19.1 million to a new level of \$37.9 million. What is the reason for the doubling of the funding needed to support centralized services for Program Direction in fiscal year 1991?

ANSWER:

The increases in the centralized services activity for fiscal year 1991 are \$855,000 for increased costs associated with Accident and Unemployment Compensation, \$513,000 for increased costs due to inflation, and \$17,777,000 for increased amounts payable to General Management and Administration for centralized support services.

The fiscal year 1991 budget request for General Management and Administration, Advances and Reimbursements, reflects a change in the accounting within General Management and Administration from direct to reimbursable funding for selected activities. The conversion of these activities to reimbursable funding permits GSA's revolving funds, including the FBF, to more closely reflect the cost of doing business.

NONPROSPECTUS PROJECTS**QUESTION:**

In fiscal year 1991, you are proposing an increase of \$3 million to a level of \$5 million for what you are calling "non-prospectus" projects. Can you provide the committee with a list of these construction projects proposed for fiscal year 1991 and explain why this substantial increase is necessary?

ANSWER:

GSA has requested that the previous language that requested funds for "Construction Projects less than \$1,500,000", be changed to read "Non Prospectus Construction Projects". Public Law 100-678; Public Buildings Amendments of 1988, 40 U.S.C. 601, amended sections 4(b) and 7(a) of the Public Buildings Act of 1959 (40 U.S.C. 603(b) and 606(a)) by striking out "\$500,000" each place it appears and inserting in ;lieu thereof "\$1,500,000". Additionally, provisions were established whereby the Administrator of General Services may adjust the threshold to reflect a percentage increase or decrease in construction costs as determined by the composite index of construction costs of the Department of Commerce. Fiscal year 1990 was the first year in which the revised prospectus threshold was effective. Projects that would have been line-item projects in the past (between \$500,000 and \$1,500,000) must now be funded through the "non-prospectus" component. Consequently, as more projects are eligible for funding in this area, more funding is required.

The impact of changing the threshold on the "non-prospectus" component has become apparent. GSA was not able to fund all of the "non-prospectus" projects proposed for fiscal year 1990. Projects that were funded included site acquisitions in Hato Rey, Puerto Rico and Detroit, Michigan and the construction of small facilities in Anchorage, Alaska; Ft. Worth, Texas; and Oroville, WA. GSA will develop a list of projects for fiscal year 1991 funding from those projects deferred in fiscal year 1990 due to lack of funding and new proposals that will be submitted by our regional offices during the coming months.

ICTC / PADC**QUESTION:**

Can you bring the committee up to date on the International Cultural and Trade Center funded in fiscal year 1989 by transfer to the Pennsylvania Avenue Development Corporation?

ANSWER:

Public Law 100-113, dated August 21, 1987, enacted the "Federal Triangle Development Act" which authorized the construction of a Federal building complex and international cultural and trade center on the Federal Triangle property in the District of Columbia. It stipulated that the appropriate development, maintenance, and use of the Federal Triangle property should be a joint development effort of the General Services Administration, the Pennsylvania Avenue Development Corporation (PADC) and the International Cultural and Trade Center Commission. The Act authorized preparation of plans for the development of such property, the power of eminent domain, and transfer of the Federal Triangle property title to PADC for development. It also authorized PADC to enter into an agreement with a private developer selected for the development of such property. The building (including parking facilities) is not to exceed 3,100,000 gross square feet in size.

On October 18, 1989, PADC announced the award of the development contract for the International Cultural Trade Center project to the Delta Partnership. PADC also stated that it would procure lease purchase financing separately. PADC is working with its financial consultant, Kidder Peabody and GSA to structure optimal project financing. Concurrent with PADC action, OMB is re-analyzing the ICTC funding strategy for the feasibility of financing by the Federal Financing Bank.

GSA is currently refining the housing plan for the facility as directed by the "Federal Triangle Development Act". A letter contract has been issued to the developer for site and program (generic) development investigation.

FORMER PRESIDENTS

Question: In fiscal year 1991, you are proposing an increase of \$156,000 for allowances and Office Staff for Former Presidents. Your justification states that amount includes a reduction of \$2,900 in the Office Staff allowance for Former President Ford due to a GAO decision. Can you explain to the Committee the decision of GAO with respect to President Ford's Office Staff?

Answer: In Fiscal year 1980 President Ford should have received payment for staff support at the rate of \$150,000 for the period October 1, 1979, to March 30, 1980, and at the rate of \$96,000 for the period April 1, 1980, to September 30, 1980. The resulting calculation is a monetary ceiling on staff support payments for fiscal year 1980 of \$123,000. Thus, since the staff of former President Ford actually received \$146,048 in payments for fiscal year 1980, the result was an overpayment of \$23,048.

GAO stated that GSA may not terminate collection of a debt arising from the payment of salaries in excess of the statutory maximum to the staff of former President Ford. GAO also directed GSA to proceed with collection of the debt arising from the payment of salaries in excess of the statutory maximum to the staff of former President Ford. In addition, GAO informed GSA that they may offset the debt against future payments made to former President Ford's staff as opposed to seeking repayment.

The agreement reached and implemented by all respective parties was an administrative offset against former President Ford's annual staff salary limitation for eight years. This

consists of an annual reduction of \$2,900 for fiscal year 1987 through 1993 and a reduction of \$2,748 in fiscal year 1994 to former President Ford's annual staff salary limitation. The total administrative offset is \$23,048 which recoups the full amount of the overpayment in fiscal year 1980.

ENVIRONMENTAL PROTECTION AGENCY (EPA) CONSOLIDATION

QUESTION:

What is the status of negotiations on the construction of a new EPA headquarters building? Has a site been chosen and has a decision regarding size and scope been made? If not, when do you expect this decision to be made?

ANSWER:

EPA has declined to be located at the Southeast Federal Center and GSA has concurred in that decision. Therefore, the construction of a consolidated headquarters building will be located on a private site which is yet to be determined. GSA and EPA have basically agreed on the size (1.4 million occupiable square feet) and the scope of the project.

QUESTION:

What does the Administration's request of \$300 million for this project in fiscal year 1991 envision?

ANSWER:

On March 29, 1990 the President submitted an amendment to GSA's fiscal year 1991 budget request which stated in part that in fiscal year 1992, \$300 million would be made available for the construction of a facility for EPA within the District of Columbia from the resources of the Federal Buildings Fund. The \$300 million included in the President's budget amendment is not part of the request for an appropriation to the Fund in the amount of \$2.4 billion.

The \$300 million is the estimated cost for the construction only of the EPA Headquarters Building EPA based upon a mid point of construction of October, 1993. This cost does not include: the above standard requirements that are being developed by EPA; Design fees; Management and Inspection fees; and the cost a site if the facility is not built on government-owned property.

The scope, location and timing of this project are currently active discussion within the Administration. GSA expects to be able to develop a better cost estimate as the uncertainties are removed.

OFFICE OF NATIONAL DRUG CONTROL POLICY

QUESTION:

What is the status of the move by the Office of National Drug Control Policy to a more suitable location?

Has a site been identified and if so, when is the ONDCP expected to occupy the new space? Does this new space include the proper security to protect the health and safety of Director Bennett and his employees?

ANSWER:

Space has been leased at 750 17th Street, NW, Washington, DC to house the Office of National Drug Control Policy (ONDCP). Occupancy is scheduled for September 20, 1990. The space leased meets current GSA standards for the health and safety of all Federal employees. Additionally, the Federal Protective Service in conjunction with security officials from Mr. Bennett's office, conducted a physical security survey of the site to ensure that adequate security measures will be in place for the protection of ONDCP employees.

QUESTIONS SUBMITTED BY SENATOR MIKULSKIHOUSEHOLD GOODS PROGRAM

Question: A number of Federal agencies would like a program that gives them the option of negotiating their employees' household goods moves. This cost saving initiative has proven to be successful in a pilot program administered by the Social Security Administration.

Would GSA support giving all Federal agencies the option to negotiate their employees' household goods moves if this option were to result in cost savings to the agency and improved services to the employee?

Answer: Agencies already have authority to manage their employees' household goods moves within the guidelines contained in Title 41 of the Code of Federal Regulations, Chapter 101-40 and the GSA centralized household goods program. Most agencies now do so with their own resources. But several agencies, including GSA (on behalf of the Department of Labor) and the Social Security Administration, already have awarded or soon will award a contract to "third party" brokers to provide administrative support services in the relocation of their employees. The vendor provides employee counseling services, household goods shipment booking services, claims settlement services, prepayment audit and bill payment services, etc.

The Social Security Administration (SSA) contract is now under consideration for renewal and SSA has requested GSA extend the exclusive waiver which grants authority for the contractor to select a carrier (and a rate level) outside the GSA centralized household goods program. A review of the SSA program relative to the overall Federal transportation and procurement policy is now being conducted by GSA.

FEDERAL AGENCY RELOCATIONS**QUESTION:**

The following projects are currently pending. Could you provide a status report and timeline for completion of these projects? Included in this report could you describe the potential effect the recent OMB directive concerning funding for capitol construction has on each one of these projects?

Prince Georges County Federal Courthouse

The site investigation has been completed. The Regional Administrator has submitted a memo to the Commissioner, Public Buildings Service requesting authority to proceed with acquisition of the site. A favorable response is currently being prepared for the Commissioner's signature.

<u>Milestone</u>	<u>Date</u>
Central Office Approval of Land Acquisition	05/15/90
A/E Award and Design Start	06/12/90
Foundation Contract Award (Foundation Design Already Completed)	07/11/91
Foundation Construction Start	07/25/91
Design Complete	09/12/91
Foundation Construction Completion	12/13/91
Start Construction	01/28/92
Construction Completion	08/14/93

Office of Management and Budget's recent opposition to Least Cost Financing (LCF) to fund the capital building program will not affect the Prince George's County Courthouse project. The Prince George's County Courthouse was originally proposed as direct Federal construction.

IRS National Office Relocation

IRS Consolidation Project Timeline:

<u>Milestone</u>	<u>Date</u>
Prospectus Prepared	09/01/89
Funding Authorized by Congress	10/01/90
Program of Requirements Complete	01/01/90
Advertise Bring Construction Quality Manager on Board	02/01/90
Issue Solicitation for Offers (SFO) Commence Environmental Impact Statement Process	03/15/91
Pre-Bid Conference	04/15/91
SFO Responses Due (First Submissions)	05/15/91
Land Use Consultant Completes Site Investigation Short List/Set Competitive Range	08/01/91
Second Submissions Due (from Shortlist Firms)	11/01/91
Negotiations Complete	07/92
Best and Finals	08/92
EIS Record of Decision Identification of Successful Offeror	08/92
Contract Clearance Complete/Award	11/92
Construction Commencement	07/93
Initial Occupancy of First Phase	12/95
Occupancy Complete	06/96

The IRS consolidation project could be affected by the OMB directive concerning funding for capitol projects if Congressional authorization for direct funding is not forthcoming by the end of this calendar year.

HCFA

GSA and HCFA are working closely in the development of the agency's space requirements. The delineated area for satisfying this space requirement includes the city of Baltimore as well as the north west area of Baltimore County. Upon completion of the requirements development, GSA will advertise and issue a Solicitation for Offers (SFO) to acquire this space via a lease purchase.

The following are tentative milestone dates:

Market Survey: May 1990

Issue SFO: June 1990

Lease Award: June 1991

Agency Occupancy: June 1993

The HCFA project could be affected by the OMB directive concerning funding for capitol projects.

FDA CONSOLIDATION - While GSA maintains leased space for the FDA, no consolidation action is planned at this time.

The FDA consolidation project should not be affected by the OMB directive concerning funding for capitol projects.

NOAA CONSOLIDATION

The NOAA Consolidation at Silver Spring Metro Center (SSMC) in SSMC I (Building 1) and SSMC II (Building 2) have been completed. The schedule for SSMC III and SSMC IV are as follows:

NOAA, SSMC III 343,000 Square Feet

<u>Milestone</u>	<u>Date</u>
Design Intent	06/30/91
Award	12/30/91
Construction Complete	06/01/92
Installation of System Furniture Starts	05/01/92
Occupancy Complete	12/31/92

NOAA, SSMC IV 220,000 Square Feet

<u>Milestone</u>	<u>Date</u>
Design Intent	06/30/91
Award	12/30/91
Construction Complete	06/01/92

Installation of System Furniture Starts 05/01/92

Occupancy Complete 12/31/92

The NOAA consolidation project should not be affected by the OMB directive concerning funding for capitol projects.

U. S. Army Corps of Engineers (COE)

GSA has issued a Solicitation for Offers and advertised to provide for this consolidation requirement which is currently located in the Fallon Federal Building and in a leased building. In addition to providing for consolidation of the COE, this project will permit GSA to consolidate all non-location specific leases in the City of Baltimore. Currently, GSA has received initial offers and is in the evaluation process. GSA plans on a lease award which will permit build out and agency occupancy to coincide with the lease expiration. Agency occupancy is expected in the Fall of 1992.

The COE project should not be affected by the OMB directive concerning funding for capitol projects.

FALLON FEDERAL BUILDING

QUESTION:

As you know, the hazardous health conditions at the Fallon Federal Building are of great concern to me. Please provide me with a status report on the clean up efforts and your time line for completing the projects.

ANSWER:

GSA has established and implemented a full scope of safety and environmental management programs to maintain safe and healthful workplaces in GSA-controlled buildings. These programs encompass, but are not limited to: the control of asbestos; indoor air quality; and radon and are designed and implemented in accordance with the requirements established by the Environmental Protection Agency (EPA), Occupational Safety and Health Administration (OSHA) and the Federal Property Management Regulations.

The Fallon Building in Baltimore, Maryland, is among the approximately 7000 GSA-controlled buildings under the GSA safety and environmental management program umbrella. While asbestos fireproofing materials and thermal system insulation are in the building, there is a very stringent GSA asbestos control program in place, which includes surveys of asbestos conditions, special operations and maintenance procedures, and selective abatement where the material is deteriorated, damaged, or subject to damage. The GSA policy of selective abatement and management of asbestos materials in good condition is in line with current EPA guidelines. Additionally, GSA conducts periodic area air monitoring in the Fallon building. So far, air sampling results obtained in the Fallon building have been well below the action level established by OSHA.

Asbestos abatement work is accomplished using guide specifications which require that an industrial hygiene contractor monitor the construction contractor's activities, throughout the course of work to assure that asbestos fiber control, cleanup, and disposal of asbestos wastes is being accomplished in accordance with specifications.

Prior to reoccupancy of any abatement area, visual observation and asbestos clearance levels must be passed in accordance with EPA guidelines.

Asbestos abatement has been completed in the east basement mechanical space and the loading dock. The garage, all the electrical and telephone closets, 3rd floor mechanical rooms, and the 17th floor have also been scheduled. The abatement projects will start May 18, 1990, and are projected for completion along with sprinkler installation by October 1991.

GSA is also addressing other indoor air quality concerns in the Fallon building. Following the guidance of the GSA Indoor Air Quality program, the GSA field office staff have identified a potential source of occupant complaints. The issue was related to significant tenant activities outside the normal duty period when there was no standard level air conditioning service. The tenant did not request additional operation of the heating, ventilating and air conditioning system, which can be provided on a reimbursable basis.

The tenant's need for additional air conditioning services has been addressed. The proactive element of the Indoor Air Quality program has also identified minor inadequacies in the ventilation system which have also been corrected.

Any potential hazardous health and safety conditions in the Fallon building are under control through implementation of a stringent environmental management program. In addition, firesafety is augmented by an ongoing automatic fire sprinkler system installation project.

QUESTIONS SUBMITTED BY SENATOR BYRD

COAST GUARD MARTINSBURG, WEST VIRGINIA

QUESTION:

In response to a question I posed for the record last year, regarding the construction schedule for the Coast Guard Operations Computer Center, you provided me with a schedule which called for completion of the project in the fall of 1990. I am now advised that there has been some delay in the original schedule due primarily to the desire of the Coast Guard to construct a larger facility to house additional activities, such as the Joint Maritime Information Element (JMIE), as well as the need for unique security requirements due to the classified nature of the computer activities in the new facility. Delivery and occupancy are now scheduled for June, 1991. I am concerned that there be no further changes in the project and that the present schedule be strictly followed.

May I have your assurances that GSA will work diligently with the Coast Guard to assure that the following revised acquisition schedule is complied with?

U.S. Coast Guard Facility
Martinsburg, West Virginia
Acquisition Schedule

Award	July 1, 1990
Delivery/Occupancy	June 1, 1991

ANSWER:

You have my assurance that we will work diligently to deliver this space as scheduled.

IRS MARTINSBURG, WEST VIRGINIA**QUESTION:**

Mr. Austin, in your letter to me of January 22, 1990, you indicated that the 25,000 square foot training center was occupied in September, 1989, and since then your staff has indicated that the 35,000 square foot warehouse to consolidate and expand storage needs of the IRS became operational in January, 1990. Please update for the record the current status of the child care center that is to be opened in September, 1990. In addition, please indicate the number of employees at each building of the IRS Computer Center.

ANSWER:

Our regional office indicates that construction of the new child care center is scheduled for completion in August 1990 with occupancy scheduled in September. This new child care center will have a capacity of 75 children.

The actual computer center is one contiguous structure built in three stages. At this center, the IRS is budgeted for approximately 800 employees. This includes full-time, part-time, and seasonal personnel. Currently, IRS runs three work shifts at this computer center.

QUESTION:

With regard to the new 63,000 square foot annex to the Computer Center, your staff has indicated that GSA and IRS performed a site survey in late January, 1990; that the findings and recommendations of the Site Selection Team were presented to IRS on March 8, 1990; that all parties concurred with the Site Selection Team's proposal; and that IRS has requested occupancy by Spring of 1992. Please update for the record the current status of the annex.

ANSWER:

As of June 14, 1990, site selection has been completed and negotiations are underway. GSA anticipates to complete site selection activities by mid-July, 1990. IRS is in the process of finalizing their special requirements and will forward them to GSA by mid-August, 1990.

The following are tentative milestone dates:

Advertise for Construction:	September 1990
SFO Issuance:	January 1991
Lease Award:	November 1991
Agency Occupancy:	January 1993



EXECUTIVE OFFICE OF THE PRESIDENT

EXECUTIVE RESIDENCE AT THE WHITE HOUSE

STATEMENT OF ROBERT G. STANTON, REGIONAL DIRECTOR, NATIONAL
PARK SERVICE, NATIONAL CAPITAL REGION

ACCOMPANIED BY:

JAMES I. McDANIEL, ASSOCIATE REGIONAL DIRECTOR, WHITE HOUSE
LIAISON, NATIONAL PARK SERVICE, NATIONAL CAPITAL REGION

MICHAEL SUMMERLIN, PROJECT MANAGER, WHITE HOUSE LIAISON,
NATIONAL PARK SERVICE, NATIONAL CAPITAL REGION

MARYANNE MURILLO, BUDGET ANALYST, NATIONAL PARK SERVICE,
NATIONAL CAPITAL REGION

INTRODUCTION OF WITNESS

Senator KERREY. Our next panel will be the Executive residence at the White House. Testifying on behalf of the Executive residence will be the Director of the National Capital Region of the National Park Service, Mr. Robert Stanton.

Mr. Stanton, we are pleased to have you with us.

Mr. STANTON. Thank you, Mr. Chairman.

Senator KERREY. The fiscal year 1991 budget request for the Executive residence totals \$7.29 million plus 97 full-time positions. It reflects an increase of \$478,000 and two positions over fiscal year 1990. There are a number of increases and nonrecurring costs and I look forward to hearing from you on the justification for the new projects this morning.

Mr. STANTON. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before you and to report on the operation and condition of the Executive residence at the White House and to present to you and to the committee for your consideration the funding requirements for the maintenance and operation of the Executive residence for fiscal year 1991.

Mr. Chairman, I am pleased to be accompanied by Mr. Jim McDaniel to my immediate right. He is our Associate Regional Director for White House Liaison. To his immediate right is Mr. Mike Summerlin, an architect. He is also our project manager relative to our involvement with the Executive residence. To my left is Ms. Maryanne Murillo, who is the budget analyst with the National Park Service in our regional office.

As you mentioned, Mr. Chairman, the appropriation for fiscal year 1990 was \$6,898,000, which after adjustment for the Gramm-Rudman sequester nets to a total budget authority of \$6,815,000.

FISCAL YEAR 1991 BUDGETARY NEEDS

The fiscal year 1991 request is \$7,293,000, which is \$478,000 above the fiscal year 1990 budget. Included in the fiscal year 1991

request is a nonrecurring item of \$500,000 for the renovation and remodeling of the Executive residence kitchens, where all food is prepared for official and ceremonial functions.

The kitchens were last remodeled some 20 years ago and the current cooking and refrigeration equipment has far exceeded its life expectancy.

Additionally, we are requesting \$167,000 for costs associated with the water and sewer usage charges, \$279,000 for fiscal year 1990 and 1991 cost of living and personnel benefits, and \$100,000 for the continuation of the furnishings restoration project begun last year.

CURATORIAL CONSERVATION PROJECT

In fiscal year 1990, with the help of this committee, \$125,000 was appropriated to begin a planned multiphase curatorial conservation project. I might add, Mr. Chairman, that due to this add-on we were able to begin this project 1 year ahead of our planned schedule.

Phase I, currently underway, consists of conservation of those items having major structural damage and urgently needing repair.

In fiscal year 1991, we are requesting \$100,000 to begin phase II consisting of completion of conservation of those items having significant structural damage and initial conservation of those items having some structural damage and also requiring reconditioning and refurbishment.

OFFICIAL CEREMONIES AND FUNCTIONS

Funds are also requested for overtime and premium pay. The Executive residence has experienced an increase in the number and timing of official ceremonies and functions, resulting in a corresponding increase in overtime and premium pay.

Certainly due to the increasing complexity of Presidential functions and world events, more events are being held at the White House as opposed to other locations. The events themselves require increasing amount of planning and preparation, including assembling supplies, materials, and fixtures within the White House to stage these historic events.

PERSONNEL NEEDS

Also requested are two additional positions, a fire alarm specialist and a maid. The fire alarm specialist is needed to perform maintenance and inspection of the Executive residence fire protection system. The maid's position is needed to perform required cleaning on the grounds and state floors after the daily tours.

As you know, over 1 million visitors annually tour the Executive residence or the White House and the addition of the maid position would lessen the heavy workload on the current staff and allow for a more thorough cleaning routine.

This concludes our request, Mr. Chairman, in terms of the budget increases for fiscal year 1991. However, I would like to take just a minute, if I may, to report on the status of the exterior restoration.

PREPARED STATEMENT

Senator KERREY. Thank you, Mr. Stanton. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF ROBERT G. STANTON

Mr. Chairman, and members of the committee, I appreciate the opportunity to appear before you to report on the condition of the Executive residence at the White House and to present, for your consideration, the fund requirements for the maintenance and operation of the Executive residence for fiscal year 1991.

The appropriation for this account for fiscal 1990 is \$6,898,000, which after adjustment for the G-R-H sequester, nets to a total budget authority of \$6,815,000.

The fiscal year 1991 request is \$7,293,000 which is \$478,000 above the fiscal 1990 budget authority. Included in the fiscal year 1991 request is a nonrecurring item of \$500,000 for the renovation and remodeling of the Executive residence kitchens, where all food served at official and ceremonial functions is prepared. The kitchens were last remodeled 20 years ago, and the current cooking and refrigeration equipment has far exceeded its life expectancy.

Additionally, we are requesting \$167,000 for costs associated with water and sewer usage charges, \$279,000 for fiscal years 1990 and 1991 cost of living and personnel benefit increases, and \$100,000 for the continuation of the furnishings restoration project begun last fiscal year.

In fiscal year 1990, with the help of this committee, \$125,000 was appropriated to begin a planned multiphase curatorial conservation project. Due to this congressional add-on, we were able to begin this project one year ahead of our planned schedule. Phase I, to be completed during fiscal year 1990, consists of conservation of those items having major structural damage and urgently requiring repair. In fiscal year 1991 we are requesting \$100,000 to begin phase II, consisting of completion of conservation of those items having significant structural damage, and initial conservation of those items having some structural damage and also requiring reconditioning and refurbishment.

Funds are also requested for overtime and premium pay. The Executive residence has experienced an increase in the number and timing of official ceremonies and functions resulting in a corresponding increase in overtime and premium pay. Due to the increasing complexity of Presidential functions and world events, more events are being held in the White House, as opposed to other locations. The events themselves require increasing amounts of planning and preparation, including assembling supplies, materials and fixtures within the White House to stage the events.

Also requested are two additional positions, a fire alarm specialist and a maid. The fire alarm specialist is needed to perform maintenance and inspection of the Executive residence fire protection system. The maid's position is needed to perform required cleaning of the ground and state floors after daily tours. As you know, over one million visitors annually tour the White House, and the addition of the maid position would lessen the heavy workload on the current staff, and allow for a more thorough cleaning routine.

This concludes our budget request, Mr. Chairman. I shall be pleased to answer any questions you and the other members of the committee may have about the operation of the Executive residence.

STATUS OF THE EXTERIOR RESTORATION PROJECT

Mr. STANTON. With the committee's permission, I would like to ask our architect and project manager, Mr. Mike Summerlin, to briefly give you an update and use some visual aids to depict the state of the restoration and the status of the actual repairs that are underway.

Mr. SUMMERLIN. Thank you, Mr. Stanton.

Mr. Chairman, I would like to brief you on the status of our exterior restoration project, and I have some visuals here that will explain the project in more detail.

The exterior restoration project began in 1984 with the paint removal from the east elevation of the White House. In 1988, we

moved to the north elevation, or the Pennsylvania Avenue side of the White House, to begin paint removal and restoration of that exterior.

This project involves not only the removal of the paint from the exterior walls, but also the documentation photographically of these exterior walls once the paint has been removed. This will allow us, in the future, to determine the exact placement of the stone and the graining of the stone.

Back in 1988, we identified certain areas of the north elevation that needed stone repair and this diagram here shows the amount of stone repair that we had anticipated doing at that time.

EXTENT OF STONE DETERIORATION

Once the paint was removed from the exterior of the White House, it was determined that there was much more extensive stone repair required. For one thing, with the 32 layers of paint that had been applied to the exterior of the White House it was difficult to actually tell how much deterioration had occurred over the 200 years.

Once the paint was removed, we were able to identify those areas more clearly. We brought in an expert stonemason, Mr. Vincent Palumbo, who is the master stone carver at the National Cathedral. He is working on this project now.

Again, this diagram shows the original work that we had anticipated, and then the overlay shows the amount of work that was actually identified and accomplished under that project.

Just a few weeks ago in March 1990, we completed the north elevation of the White House. All of the stone repair has been done. All of the photogrammetry, that is the measured drawings, are underway and the north elevation has been repainted.

The next phase of the project is the paint removal on the south elevation. This panel here and this panel have already had the paint removed. This summer, starting in May 1990, we will begin the paint removal on the center portion, which is the south portico.

Stone restoration has already begun on the two panels where the paint is presently removed. Again, before the paint was removed, we were able to identify certain areas that we anticipated stone repair would be required.

This diagram shows you the amount of work that we had anticipated. Since the paint has been removed, we have done another survey and determined that there is additional work that needs to be done and this diagram with the overlay shows all of the exterior work—stone restoration work that needs to be done on the south elevation.

The next phase of the project will be the west and east elevation where we will remove the paint from the west elevation and do stone repair. We will also go back to the east elevation. Although the paint has previously been removed, there is stone restoration work that was not done at that time. We will be going back to do this restoration work on the east elevation.

Again, this diagram shows the amount of stone work that was originally anticipated and then the overlay shows the additional amount of restoration work that needs to be done.

I also have some photographs that show you in more detail exactly how much damage has occurred over the 200 or so years that the White House has been in existence.

Here is a detail of one of the capitals of the column which shows the deterioration of the ornamentation there. As part of this project, the stone carver will come back and recarve and replace those elements.

Again, here is some of the more serious damage, in this photograph. We are showing some of the dentil work at the cornice of the elevation, which is deteriorated.

In the past, repairs were made by replacing some of that ornamentation with pieces of metal, and once that was painted over, it was difficult to tell that that is actually metal instead of the original stonework.

So until the paint was actually removed from the building, it was difficult to tell exactly how much stone damage had occurred over the number of years.

I will be glad to answer any questions, if you have any.

SOURCE OF REPLACEMENT STONE

Senator KERREY. Where do you have to source that stone?

Mr. SUMMERLIN. For the restoration work?

Senator KERREY. Yes.

Mr. SUMMERLIN. The stone is actually coming from stone that was removed from the west face of the Capitol during the renovation of the west face of the Capitol that took place, I believe, around 1959 or so.

Mr. STANTON. That is correct.

Mr. SUMMERLIN. When that stone came off of the Capitol Building it was stored at Rock Creek Park. In fact, there was an article in this past Sunday's paper mentioning that stone being stored up there.

We entered into an agreement with the Architect of the Capitol, the National Park Service did, where we are taking that stone and recutting it and reusing it on the exterior of the White House.

Now that stone came from the same quarry that the original stone for the White House came from. So we are using the same material to replace in kind.

FUNDING NEEDS

Mr. STANTON. Mr. Chairman, as Mike mentioned, Congress appropriated \$2.4 million toward the restoration program in fiscal year 1990 and, based on our information and visual analysis at the time, we anticipated that that would be sufficient for the completion of the project.

However, based on further analysis, we have been able to refine those cost estimates. Based on the progress of the work to date, it is anticipated that as of April 1990, the funds expended or obligated under contract will amount to a little over \$2 million, leaving a balance of only \$360,000.

Recognizing a need for additional funding, on March 26, we submitted a request to the Office of Management and Budget for an

amendment in the President's budget of \$1.2 million for fiscal year 1991.

If this amount, however, is not made available in 1991, we would estimate that the work would have to cease in November of this calendar year, leaving portions of the south elevation partially repaired.

I am pleased to announce, Mr. Chairman, however, that it is my understanding that President Bush has approved the budget amendment and that it has been or is in the process of being forwarded to Congress and ultimately, I believe, to your committee for consideration as a budget amendment for fiscal year 1991.

Senator KERREY. You look at this as an add, it is not possible to forego some of the other things that are in the budget request in order to get this renovation done?

Mr. STANTON. Our request was for a budget amendment, which would be an addition to this particular budget request of which we are making before you, yes, not in lieu of, but in addition to.

Senator KERREY. Did you all consider the possibility of setting aside some of the other things that are in the request in order to fund—

Mr. STANTON. We certainly looked at all of the requests, including the two staff positions, including the amount requested for the renovation of the kitchen, as I mentioned, had not been redone, re-finished in more than some 20 years. We took a very hard and very careful look at the request.

It is our position, Mr. Chairman, that there are some critical needs, plus we certainly recognize that the need to complete the stonework is critical as well, and that was our justification to OMB; and I believe that the OMB has agreed to the sense of priority here, and is submitting a budget amendment which will be \$1.2 million above this request.

RENOVATION OF THE KITCHEN AREA

Senator KERREY. How is this kitchen used? Is it used for all meals served—

Mr. STANTON. For all meals, yes. It is a large kitchen with a large staff. It serves as the principal base of operation—

Senator KERREY. They do not cater any food in?

Mr. STANTON. Maybe for some special state-visits there may be some catering in, but primarily, for security reasons too, Mr. Chairman, all foods basically are prepared on premises.

Senator KERREY. Can you give me at a later date the amount of food that is catered and the amount of food that is prepared in?

Mr. STANTON. We certainly will.

Senator KERREY. So we can get an idea of the difference.

Mr. STANTON. We certainly could. We certainly will be more than happy to do that.

Senator KERREY. I think it is one of the things that I would be concerned about in putting one-half of a million dollars into a kitchen that is used in a decreasing amount.

Mr. STANTON. Yes.

Senator KERREY. I am very much aware that it is possible that they could be catering more and more food out or catering it in.

Mr. STANTON. We would certainly be more than happy to provide that for you, Mr. Chairman, as well as any studies that may have been done to determine the appropriate division of responsibilities between in-house preparation, if you will, and catering. We certainly will.

Senator KERREY. I guess the thing that I would just ask you to do is to examine whether or not the usage of that kitchen is itself increasing, or is it decreasing.

Mr. STANTON. I am advised that it is increasing by the number of state and other official functions held.

Senator KERREY. The kitchen usage itself is increasing?

Mr. STANTON. Yes, right; based on—again, I cannot cite specifically. I will defer to Mr. McDaniel in terms of the percentage of any food that might be catered in as opposed to what is prepared on site, but there has been an increase in the number of official functions at the White House in which food items are served to the guests and consequently the volume of activities in the kitchen has increased, but I cannot cite again the division between—or the percentage between site preparation and offsite preparation.

Mr. McDANIEL. Mr. Chairman, all food for official and ceremonial functions is prepared in the White House kitchen.

Mr. STANTON. And that has a lot to do with security.

Mr. McDANIEL. Food is not catered in, even when kosher foods are prepared for events, these types of food are prepared in the White House kitchens.

The amount of kitchen use has increased. The trend is toward increasing use, particularly in light of the fact that for security reasons the President travels outside the White House less often now than he has before. More official functions are held within the White House complex itself and, therefore, more of the food preparation that normally would be done for outside visits is being done within the White House.

Senator KERREY. Will this one-half million dollars finish the job?

Mr. STANTON. Yes.

Senator KERREY. Or are there later appropriation requests here?

Mr. STANTON. Based on our engineers and architects' estimate for the rehabilitation and upgrading of the ventilating and air handling systems, as well as the purchase of new equipment, we believe that that estimate will be sufficient, Mr. Chairman.

FIRE ALARM SERVICES

Senator KERREY. Why did the Secret Service discontinue the fire alarm services that are being requested now?

Mr. STANTON. No; the Secret Service is continuing to provide through one of their staff a fire alarm specialist. It is our considered judgment, Mr. Chairman, based on the sensitivity and obviously the historical significance of the White House and obviously as the home of the President, that we need an additional fire alarm specialist to assure adequate coverage 7 days a week and around service. So actually we will have the capability of having two fire alarm specialists at our disposal at any one given time.

Senator KERREY. The justification that you provided indicated that that individual left in 1986 and has not been replaced.

Mr. STANTON. No; this was a member who was on the staff of the White House who left. This would be to fill in behind that individual.

Senator KERREY. No; it says that there was a Secret Service agent who performed this function, but he retired in 1986 and has not been replaced.

So the question is, why do we not get the Secret Service to replace that individual and take it out of their budget?

Mr. STANTON. Well, that, I think, had been discussed. You are right, Mr. Chairman. I misunderstood your question.

The Secret Service had one and the Executive residence had one. The Secret Service person has retired or otherwise left the service. It was considered because of the importance of the fire alarm specialist that perhaps this person should be under the immediate direction of the staff of the White House, that being the Chief Usher, as opposed to the Secret Service. That obviously is an option that could be further explored.

SUBMITTED QUESTIONS

Senator KERREY. That is all the questions I have. We will submit more questions to you to be answered for the record.

Mr. STANTON. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

BUDGET OVERVIEW

Question. The fiscal year 1991 budget request for the Executive Residence at the White House totals \$7,293 million and 97 full-time staff positions. When you consider the non-recurring costs from fiscal year 1990, this amount represents a real increase of \$1,617 million and 2 positions from the fiscal year 1990 post-sequester funding level. Of this amount, \$486,400 is for pay and other inflationary costs and the remainder is for programmatic increases. Because of the tight budgetary restraints the committee will undoubtedly be under this year, can you provide the committee with a priority ranking of your programmatic increases?

Answer. As discussed in our Budget Hearing, OMB has recently approved a budget amendment in the amount of \$1,202,000 so that work may continue on the Exterior Restoration project. Our first priority would be to continue this essential project. If no funds are provided for the continuation of the project, a work stoppage will occur as early as November of 1990 and continue for the remainder of FY-91. Further, this work stoppage will remain in effect until such time as additional funds are appropriated.

It is a very difficult task to assign priorities to the programmatic increases requested, as each increase requested is essential. However, the following ranking is respectfully submitted.

1. Exterior Restoration Project	1,202,000
2. Kitchen renovations	500,000
3. Overtime pay	215,000
4. Furniture Conservation Project	100,000
5. Merit pay and longevity increases	105,400
6. Sequester restoration	73,000
7. Supplies	71,000
8. Fire alarm specialist	36,800
9. Maid	29,800

KITCHEN RENOVATIONS

Question. You are requesting an increase of \$500,000 in fiscal year 1991 for the renovation of the White House kitchens. Your justification states that the kitchens were built in the 1950's and although equipment has been replaced, the kitchens require remodeling. Can you tell us specifically what this remodeling project will include; what technology improvements will be made; and what health and safety problems will be corrected, if any?

Answer. The Main Kitchen on the Ground Floor of the Executive Residence is responsible for preparing all meals for Official Functions held at the White House. All of the cooking equipment is outdated and will be replaced with modern, state-of-the-art equipment, avoiding potential health and safety problems. Improvements will be made to the air-conditioning and ventilation systems allowing for more accurate temperature control. The fire

suppression system currently in operation will be upgraded. Sliding doors on both ends of the kitchen and a glass block dividing wall will be installed to close off the kitchen from the flow of traffic to the service elevator providing improved temperature control and a more sanitary cooking area.

A Pastry Kitchen will be established in the pantry area on the First Floor Mezzanine with temperature controlled counter top surfaces for the processing of chocolate and delicate pastries, an oven designed specifically for pastries and refrigerated storage shelves. In addition to the installation of equipment, the ventilation system will be upgraded.

The smaller Staff Kitchen will have the equipment replaced, the ventilation systems upgraded and air-conditioning installed. The fire suppression system in this kitchen will also be upgraded. The dishwashing operation that was on the First Floor Mezzanine will be moved to the Staff Kitchen area with a new sterilizing dishwashing unit.

ADDITIONAL POSITIONS

Question. How has fire alarm security been provided since 1986 and what leads you to believe that in fiscal year 1991 you must have a permanent full-time individual to carry out this work?

Answer. The Executive Residence currently has one fire alarm specialist on staff dedicated to the maintenance, repair and upgrading of the fire prevention system. Until 1986, the United States Secret Service (U.S.S.S.) provided a fire alarm specialist whose sole responsibility was the Executive Residence fire prevention system. Due to the complex nature of the fire prevention system, one person cannot do repairs, replacements or scheduled maintenance alone, and these two individuals worked as a team.

When the U.S. Secret Service's fire alarm specialist retired in 1986, they eliminated the position, leaving only one man dedicated on a full-time basis to the Executive Residence. When work is required on the system, it must be performed with a U.S.S.S. fire alarm specialist assigned to another area. An additional fire alarm specialist on the Executive Residence staff will allow for more thorough inspection and maintenance of the system. The current situation dictates that maintenance of the fire alarm system be performed on a reactionary basis instead a proven preventative maintenance schedule.

Question. You are also requesting an additional \$29,800 for a maid to clean the Ground and State Floors after the daily tours. The justification indicates that currently one maid and three housemen perform this cleaning activity. Why is the current cleaning staff insufficient to meet the workload requirements?

Answer. The Executive Residence is visited by over 1 million tourists per year, as well as those guests attending official and ceremonial functions of the Presidency. The extensive cleaning that is required to maintain the appearance of the house is currently performed by one maid and three housemen.

The house must be prepared before the tours and completely cleaned after them on a daily basis. Current staffing does not provide for the level of maintenance necessary to assure that the public areas are cleaned in a manner befitting the President's house.

VISITATION

Question. Your justification states that over 1 million visitors tour the White House annually. Can you tell us the approximate number of tourists visiting the White House on the public tours for the past 5 fiscal years and what you project this number will be in fiscal year 1991.

Answer. The information follows:

	YEAR	TOTAL VISITATION
	1985	1,254,376
	1986	1,113,245
	1987	1,077,561
	1988	1,089,967
	1989	1,060,548
Estimated	1990	1,095,000
Estimated	1991	1,100,000

FURNITURE REFURBISHMENT

Question. In fiscal year 1990, the committee provided \$125,000 to begin a furniture refurbishment project for the Executive Residence. At that time, you estimated the total cost to be somewhere in the range of \$320,000 with possible escalation once the survey on the furniture had been completed. What is your current estimate of the total costs needed to fully carry-out this furniture refurbishment project?

Answer. The original estimate had several components. The \$320,000 was for items that had been surveyed. Approximately \$75,000 was estimated to be needed for items yet to be surveyed, and an additional \$100,000 was judged to be needed for gilding work. Including the cost of shipping, the entire project is expected to total \$500,000.

Question. What activities are your undertaking in fiscal year 1990 and what activities will constitute phase II in fiscal year 1991? What are your plans for phase III?

Answer. In fiscal year 1990, several objects from the public rooms of the White House have been conserved or are undergoing conservation treatment. As of May 1, 1990, 48 objects have received attention. These include 2 dining room tables, 16 card and tea tables, 19 chairs, 2 benches, 3 desks and bookcases, 1 sofa, 1 clock, 1 chest, 1 frame, 1 screen and 1 painting. Many of these objects had structural and/or finish problems which required immediate attention.

In addition, upholstery fabrics, some of which were specially made for the White House, were ordered for the Blue and Red Rooms and several pieces were reupholstered.

In phase II (1991), conservation of additional objects in public rooms will continue and objects in the private quarters will begin to receive attention. A list of projected furniture conservation projects prepared by the Executive Residence Curator's Office is attached.

A survey of selected historic objects in storage is ongoing, and the conservation needs to be addressed in Phase III will be identified by this survey.

Question. How many pieces of furniture will be conserved, and what is the average age of the furniture included in this project?

Answer. The White House Collection contains 3,303 furniture items. Of this total, we estimate that 253 objects will receive conservation as a result of this Curatorial Conservation Project. The majority of the objects in the collection date from 1790 to 1830, making them 160 to 200 years old.

PAY RAISES

Question. You have requested a total increase of \$384,400 for increased costs due to personnel compensation and benefits in fiscal year 1991. Of this amount, \$178,000 is requested for annualization of the 1990 pay raise for one-quarter of the fiscal year remaining in fiscal year 1991; \$74,000 for 50 percent of the costs associated with the 1991 pay raise for three-quarters of the fiscal year; and \$105,400 for within grade step increases. I have several questions on this subject. First, I believe it is the Administration's policy to provide the full annualized funding for the 1990 pay raise which will occur in the first quarter of fiscal year 1991 and provide an increase of 50 percent of the costs for the 1991 pay raise and the ES/SES pay raises. Does the \$178,000 requested for annualization of the 1990 pay raise include only that amount necessary to cover these costs in the first quarter of fiscal year 1991? If not, what does this amount include?

Second, is any of the \$105,400 for within grade increases and the merit pay being absorbed in fiscal year 1991? If so, what is the amount which will be absorbed?

Answer. In answer to the first question, the \$178,000 requested for annualization of the 1990 pay raise reflects the full cost of the FY-90 pay raise, not just the one-quarter occurring in FY-91. Since the full cost of the FY-90 pay raise was absorbed with the FY-90 budget, the full \$178,000 cannot be absorbed into the subsequent fiscal year without a severe impact on the FY-91 program, particularly in the area of supplies and materials which continue to be in critically short supply. We believe that OMB's approval of our request for full funding was based upon the small size and limited flexibility of the Executive Residence budget. Our preliminary discussions with OMB considered the possibility of pay cost absorption. However, after an in-depth analysis of fund availability, they concurred that full funding was necessary to continue the effective operation of the Residence.

The \$105,400 figure represents \$35,400 in annual step increases for permanent staff given on the basis of time-in-grade, and \$70,000 in merit increases based on performance evaluations.

The step increases are determined by the established pay rates, and the merit increases are based on a 2 percent estimate. Merit pay increases promote a stable work force in positions with little upward mobility. All merit increases over this figure will be absorbed, as well as any merit increases occurring during FY-91, estimated to be above the \$50,000 range.

PAY FOR SERVICE-BY-AGREEMENT EMPLOYEES

Question. Your budget justification includes \$24,000 in increased funding for service-by-agreement employees. Can you tell the committee how many service-by-agreement employees you have; if this number will increase in fiscal year 1991; what specific functions do these employees carry out which cannot be carried out by permanent employees; and why is this increased funding necessary?

Answer. The Executive Residence utilizes service-by-agreement employees to augment its permanent staff in several vital areas. During large events, as many as 20 additional butlers and pantry stewards will be required to serve meals. Once the event is concluded, their services are no longer needed. Currently, the Executive Residence has only five butlers on staff to handle the daily routine, and the common practice is to bring in extra help only as required. Similarly, extra chefs and floral designers are required for large functions. The Executive Residence staff level is sufficient to meet the daily requirements, with additional help secured through service-by-agreement contracts only when needed for preparation and execution of official events.

In FY-90, the rate of pay for service-by-agreement employees will be increased by 3.9 percent, the first increase in over 3 years. Stringent security requirements limit the number of employees available to work at the Executive Residence. In addition, the Residence must compete with the private sector in obtaining the services of these SBA employees. This increase does not bring salaries to the level available in the private section, however, it does narrow the gap. The funding request for FY-91 is for this rate increase, as well as for increased needs due to the number and timing of official events.

SEQUESTER RESTORATION

Question. You have requested \$73,000 in fiscal year 1991 to restore funding for the 1990 Gramm-Rudman-Hollings (GRH) sequester. Why does this amount need to be restored, and what specific activities will be undertaken if the restoration is made?

Answer. Supplies and materials items that are kept in stock and are currently at critically low levels will be purchased. Equipment scheduled for replacement in FY-90 will be replaced in kind. Additionally, stocks of upholstery materials and fabrics

used to perform unscheduled repairs to furniture items, will be brought up to required levels.

Question. What projects, if any were deferred in fiscal year 1990 due to pay absorption and the sequester? Can you identify the activity by amount?

Answer. The dollar impact of the FY-90 pay increase for the Executive Residence was \$122,000. In order to absorb this increase, the following actions were taken:

- | | |
|--|----------|
| 1. Delay filling vacant positions | \$30,000 |
| 2. Reduce the level of support to official ceremonies and functions requiring overtime | \$20,000 |
| 3. Defer acquisition of new furnishings and delay needed repairs | \$20,000 |
| 4. Across the board cuts in supplies and materials | \$52,000 |

As a result of the Gramm-Rudman-Hollings legislation, \$83,000 was sequestered from our FY-90 appropriated funds.

To meet this \$83,000 reduction, purchase of a number of new equipment items is being deferred, including many shop items we were hoping to update. Also deferred, once again, were purchases of needed supplies and materials. As required by law, a \$11,000 reduction was taken from the FY-90 construction account. The impact of this reduction will be that the amount of stock replacement glass ordered for the Exterior Window Restoration Project will be reduced. Attempts will be made to achieve economies in in-house costs on this project to help offset the stock glass reduction.

Specific dollar amounts are as follows:

- | | |
|---|----------|
| 1. Acquisition of equipment | \$31,400 |
| 2. Acquisition of furnishings | \$12,000 |
| 2. Supplies and materials reductions | \$28,600 |
| 3. Reduction to Exterior Window Restoration Project | \$11,000 |

WATER AND SEWER SERVICES

Question. You have requested an increase of \$167,000 in fiscal year 1991 for direct payments to the District of Columbia for water and sewer services. Can you explain why this new funding requirement is not being requested by other Federal agencies?

Answer. OMB's written guidance (87-9) directed all affected Federal agencies to budget this expense. This bulletin directs all Federal establishments which own property in Washington, D.C., and have received water and sewer services previously covered under the Federal payment to the District, to make payments to the District government for buildings under their control unless such charges are already included as part of rental payments to the lessor.

We have no knowledge of how this was implemented outside of the Executive Residence.

WHITE HOUSE EVENTS

Question. You have requested an increase of \$215,000 in fiscal year 1991 for planning and preparation of White House events which have been on the rise. Your justification states that these funds will be used to assemble supplies, materials and fixtures within the White House to stage these events. Can you tell the committee what type of events you expect will increase in fiscal year 1991, and why the current budget is insufficient to cover the preparation for these events? What is the total funding in your fiscal year 1990 for these activities?

Answer. Official and ceremonial functions of the Presidency are increasing in number and scope in all areas due to the recent period of change and complexity of world events. Concerns over security require most Presidential events to be held at the White House.

SUPPLY ITEMS

Question. You are requesting an increase of \$71,000 to replenish supply items such as stemware, domestic staff uniforms, and bed and bath linens. Last year you requested an increase of \$57,000 for household supplies. What is the current budget for household supplies; why is the base budget including last year's increase insufficient to ensure the proper supply of household items; and what specific items will be purchased with this additional \$71,000?

What would be the impact on the Executive Household if the committee was to forego this increase in fiscal year 1991?

Answer. The supplies and materials component of the Executive Residence budget is one of the few areas where cost can be deferred. The major portion of required budgetary reductions, such as the Gramm-Rudman-Hollings sequester and the absorption of pay costs, must be taken from supplies and materials. As can be seen from the previous listing of reductions, in FY-90 the supplies and materials component will be reduced by \$80,600, more than offsetting the FY-90 increase. This constant drawdown does not allow stock items to be replenished. The requested increase will allow for the essential replenishment of supply stock items, including tablecloths, napkins, banquet cloths, and supplies required by the classified water treatment system.

The current levels of stock supplies and materials are critically low. If funding is not available, shortages could occur.

WINDOW REPLACEMENT

Question. Can you bring the committee up-to-date on the replacement of windows in the White House which was funded in Fiscal Year 1990?

Answer. One prototype window assembly has been installed utilizing existing glass, so that the methods of construction can be evaluated. Currently the construction of window jams, sills, headers, and the replacement of weatherstripping and safety hooks is undergoing evaluation from the perspective of historic integrity; and when these methods are approved, they will be standardized for use in the installation of the other exterior windows. The project, however, will not proceed until the reproduction glass has been approved, and contract negotiation is continuing on this element of the project.

QUESTIONS SUBMITTED BY SENATOR DOMENICI

FY 1990 SEQUESTER

Question. The fiscal year 1990 sequester resulted in an \$83,000 reduction in funds appropriated to the Executive Residence at the White House.

- A. The budget justification indicates that the sequester reduced funding earmarked for the Exterior Window Restoration Project, but not the \$125,000 earmarked for refurbishment of furniture. Since a sequester is applied across-the-board, why didn't it have an impact on the funds earmarked for the refurbishment of furniture?
- B. The sequester resulted in a \$10,000 reduction in appropriations provided for the Exterior Window Restoration project. The fiscal year 1990 Appropriations provided the \$800,000 requested for this project. The fiscal year 1991 budget request includes an increase of \$73,000 to restore the sequester; however, the \$10,000 sequester reduction in this activity is not proposed to be restored. Why? Has the original estimate of funding required for this project been revised downward?
- C. For what specific purposes will the \$73,000 requested for fiscal year 1991 to restore the sequester be used?
- D. What specific reductions have been made in the budget presented to this Subcommittee for fiscal year 1990 as a result of the sequester and absorption of the fiscal year 1990 cost of the January 1990 pay raise?

Answer. A. The GRH legislation requires that cuts be made to all sequestrable accounts. Therefore, the Executive Residence was required to show the sequester amount of \$83,000 prorated against the two Executive Residence accounts, i.e., the annual operating account; and the no-year construction account. The annual operating account was reduced by \$72,000, and the no-year construction account was reduced by \$11,000.

The structure of the construction account has thus far been considered as one line-item. Consequently, the sequester

amount was applied against the funds which would cause the least impact within that activity. Because phase I of the furniture conservation project deals with those items having structural damage and most urgently requiring repair, the decision was made to absorb the sequester within the Exterior Window Restoration Project.

- B. The glass reproduction contract is still being negotiated. It is hoped that economy of scale might be achieved in negotiating for the production of the stock replacement glass, and that this, combined with in-house economies, will allow the Executive Residence to absorb this portion of the sequester.
- C. Supplies and materials items that are kept in stock and are currently at critically low levels will be purchased. Equipment scheduled for replacement in FY-90 will be replaced in kind. Additionally, stocks of upholstery materials and fabrics used to perform unscheduled repairs to furniture items, will be brought up to required levels.
- D. The dollar impact of the FY-90 pay increase for the Executive Residence was \$122,000. In order to absorb this increase, the following actions were taken:

1. Delay filling vacant positions	\$30,000
2. Reduce the level of support to official ceremonies and functions requiring overtime	\$20,000
3. Defer acquisition of new furnishings and delay needed repairs	\$20,000
4. Across the board cuts in supplies and materials	\$52,000

As a result of the Gramm-Rudman-Hollings legislation, \$83,000 was sequestered from our FY-90 appropriated funds. To meet this reduction, purchase of a number of new equipment items is being deferred, including many shop items we were hoping to update. Also deferred, once again, were purchases of needed supplies and materials. As required by law, an \$11,000 reduction was taken from the FY-90 construction account. The impact of this reduction will be that the amount of stock replacement glass ordered for the Exterior Window Restoration Project will be reduced. Attempts will be made to achieve economies in in-house costs on this project to help offset the need for a substantial stock glass reduction.

Specific dollar amounts are as follows:

- | | |
|---|----------|
| 1. Acquisition of equipment | \$31,400 |
| 2. Acquisition of furnishings | \$12,000 |
| 3. Supplies and materials reductions | \$28,600 |
| 4. Reduction to exterior window restoration project | \$11,000 |

FURNITURE CONSERVATION PROJECT

Question. The fiscal year 1991 request includes an additional \$100,000 for refurbishment of furniture

- A. Will you please give us a status report on the expenditure of the \$125,000 provided for refurbishment of furniture in fiscal year 1990?
- B. It was the subcommittee's understanding last year that an expert evaluation indicated that a total of \$320,000 would be required to cover the cost of refurbishing currently-stored White House furniture. Is this still the current estimate of the full cost of this project?
- C. If \$320,000 is still a current estimate, why doesn't the fiscal year 1991 request include the balance of funding required to complete this effort?

Answer. A. In fiscal year 1990, several objects from the public rooms of the White House have been conserved or are undergoing conservation treatment. As of May 1, 1990, 48 objects have received attention. These include 2 dining room tables, 16 card and tea tables, 19 chairs, 2 benches, 3 desks and bookcases, 1 sofa, 1 clock, 1 chest, 1 frame, 1 screen and 1 painting. Many of these objects had structural and/or finish problems which required immediate attention.

- B. The original estimate had several components. The \$320,000 was for items that had been surveyed. Approximately \$75,000 was estimated to be needed for items yet to be surveyed, and an additional \$100,000 was judged to be needed for gilding work. Including the cost of shipping, the entire project is expected to total \$500,000.
- C. Due to the nature of the restoration work required, and the fact that many of the items needing refurbishment are in use in the Executive Residence, the process must be scheduled over several years. The funds requested are anticipated to be obligated during the same fiscal year appropriated with the exception of items requiring extensive work. This phasing of the project allows for the scheduling of the work by fiscal year.

Question. The budget justification indicates that a recent curatorial conservation survey has revealed that a number of items within the Executive Residence urgently need conservation work and requires a multi-phase conservation project. The fiscal year 1991 budget requests \$100,000 for phase I of this effort.

Will you please provide this Subcommittee with a copy of the multi-phase conservation plan, indicating the items to be funded and the amount required in each fiscal year funding phase to complete the plan.

Answer. The information has been forwarded to the Subcommittee.

KITCHEN REHABILITATION PROJECT

Question. The fiscal year 1991 request includes \$500,000 to remodel the White House kitchens. Would you please explain in more detail the current inadequacies of the White House kitchens and the specific work which will be accomplished with the \$500,000 requested.

Answer. The Main Kitchen on the Ground Floor of the Executive Residence is responsible for preparing all meals for Official Functions held at the White House. All of the cooking equipment is outdated and will be replaced with modern, state-of-the-art equipment, avoiding potential health and safety problems. Improvements will be made to the air-conditioning and ventilation systems allowing for more accurate temperature control. The fire suppression system currently in operation will be upgraded. Sliding doors on both ends of the kitchen and a glass block dividing wall will be installed to close off the kitchen from the flow of traffic to the service elevator providing improved temperature control and a more sanitary cooking area.

A Pastry Kitchen will be established in the pantry area on the First Floor Mezzanine with temperature controlled counter top surfaces for the processing of chocolate and delicate pastries, an oven designed specifically for pastries and refrigerated storage shelves. In addition to the installation of equipment, the ventilation system will be upgraded.

The smaller Staff Kitchen will have the equipment replaced, the ventilation systems upgraded and air-conditioning installed. The fire suppression system in this kitchen will also be upgraded. The dishwashing operation that was on the First Floor Mezzanine will be moved to the Staff Kitchen area with a new sterilizing dishwashing unit.

FIRE ALARM SPECIALIST POSITION

Question. The fiscal year 1991 request includes \$36,800 for an additional permanent position of fire alarm specialist. The budget justification materials indicate that prior to 1986, a fire alarm specialist was assigned to the Executive Residence from the Uniformed Division of the Secret Service, but this individual retired in 1986 and has not been replaced since.

- A. If the Executive Residence requires a fire alarm specialist and has not had one since 1986, why hasn't this position been requested before now?
- B. Why didn't the Secret Service assign someone to fill this position when the individual it had previously assigned retired?
- C. Should this position be an Executive Residence position, or should it appropriately be filled by a member of the Secret Service uniformed division?

Answer. The Executive Residence currently has one fire alarm specialist on staff dedicated to the maintenance, repair and

upgrading of the fire prevention system. Until 1986, the United States Secret Service (U.S.S.S.) provided a fire alarm specialist whose sole responsibility was the Executive Residence fire prevention system. Due to the complex nature of the fire prevention system, one person cannot do repairs, replacements or scheduled maintenance alone, and these two individuals worked as a team.

When the U.S. Secret Service's fire alarm specialist retired in 1986, they eliminated the position, leaving only one man dedicated to the Executive Residence. When work is required on the system,

it must be performed with a U.S.S.S. fire alarm specialist assigned to another area. An additional fire alarm specialist on the Executive Residence staff will allow for more thorough inspection and maintenance of the system. The current situation dictates that maintenance of the fire alarm system be performed on a reactionary basis instead of in accordance with the proven preventative maintenance schedule.

Since 1986, we have attempted to have the position funded through other sources but have been unsuccessful. Therefore, we have no choice but to request it in our FY-91 budget.

MERIT PAY AND STEP INCREASES

Question. The fiscal year 1991 request proposes an increase of \$105,400 to fund regular step increases and merit pay raises for Executive Residence personnel. What would be the impact of not providing this funding? Would the Executive Residence be required to absorb this funding through reductions in funding for other activities?

Answer. The \$105,400 figure represents \$35,400 in annual step increases for permanent staff given on the basis of time-in-grade, and \$70,000 in merit increases based on performance evaluations. The step increases are determined by the established pay rates, and the merit increases are based on a 2 percent estimate. Merit pay increases promote a stable work force in positions with little upward mobility. All merit increases over this figure will be absorbed, as well as any merit increases occurring during FY-91, estimated to be above the \$50,000 range.

The impact of not funding this increase would be that the standard step increases would have to be funded through reductions in other areas, such as supplies and materials, and merit increases based on job performances would have to be eliminated.

OFFICIAL CEREMONIES AND FUNCTIONS

Question. The budget justification indicates that an increase in the number and timing of official ceremonies and Functions held at the White House has resulted in a corresponding increase in overtime and premium pay. The fiscal year 1991 request includes an additional \$215,000 to cover these costs.

Are you also experiencing an increase in overtime and premium pay requirements as a result of more ceremonies and functions being

held at the White House in fiscal year 1990? If so, what additional costs have been incurred and how are you meeting these unfunded cost increases?

Answer. Yes, costs associated with official ceremonies and functions of the Presidency are projected to be higher than current funding levels. Reductions in the areas of supplies, materials and acquisitions will be taken to offset these increased costs.

COST OF PAY RAISES

Question. The fiscal year 1991 request includes \$178,000 to cover the annualized cost of the FY 1990 pay raise and \$74,000 to fund 50 percent of the FY 1991 pay increase. Why is \$178,000 required to fund one-quarter of the FY 1990 pay raise costs while only \$74,000 is required to fund 50 percent of the pay raise costs for three-quarters of a fiscal year? Please explain.

Answer. The \$178,000 requested for annualization of the 1990 pay raise reflects the full cost of the FY-90 pay raise, not just the one-quarter occurring in FY-91. Since the full cost of the FY-90 pay raise was absorbed with the FY-90 budget, the full \$178,000 cannot be absorbed into the subsequent fiscal year without a severe impact on the FY-91 program, particularly in the area of supplies and materials which continue to be in critically short supply. Although three-quarters of these costs were absorbed in FY-90, we requested full funding of this pay raise in FY-91 based upon the small size and limited flexibility of the Executive Residence budget, and the continuing critical shortfalls in supplies and materials.

UTILITY COSTS

Question. The fiscal year 1991 request includes an increase of \$15,000. The budget justification indicates this amount is necessary because anticipated utility costs cannot be absorbed. Would you please explain this in more detail.

Answer. Utility costs for the Executive Residence include electricity, telephone, water and natural gas. Conservation measures are taken whenever possible, but, for the most part, the actual charges depend upon the weather and usage. The increased funding request is for inflationary costs.

TRAVEL EXPENSES

Question. The fiscal year 1991 request includes an increase of \$1,000 to cover increases in travel costs. Would you please explain what type of travel expenses are included in the Executive Residence budget?

Answer. The Executive Residence travel costs for official business typically are for things such as the selection of the White House Christmas trees, job related training, conferences, seminars, and project-related meetings. The additional funding is to cover the anticipated cost of this travel.

SERVICE-BY-AGREEMENT INCREASES

Question. The fiscal year 1991 request includes an increase of \$24,000 to cover service-by-agreement employees. How many Executive Residence personnel are covered by this agreement?

Answer. None of the Executive Residence permanent staff are involved in the service-by-agreement charges. The Executive Residence utilizes service-by-agreement employees to augment its permanent staff for large events. Service-by-agreement employees total approximately 80 individuals having a variety job skills, i.e., chefs, butlers, floral designers, pantry stewards, etc. These individuals are hired by the hour on an as needed basis for a fixed hour rate.

SUBCOMMITTEE RECESS

Senator KERREY. Thank you very much for your testimony.

The subcommittee will stand in recess until 11 a.m., Wednesday, May 23.

[Whereupon, at 11:30 a.m., Wednesday, April 25, the subcommittee was recessed, to reconvene at 11 a.m., Wednesday, May 23.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

WEDNESDAY, MAY 23, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 11:08 a.m., in room SD-116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini, Mikulski, Kerrey, and Domenici.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF RICHARD DARMAN, DIRECTOR

ACCOMPANIED BY WILLIAM M. DIEFENDERFER III, DEPUTY DIRECTOR

OPENING REMARKS

Senator MIKULSKI [presiding]. The Subcommittee on Treasury, Postal Service, and General Government will come to order. The record will note that Senator Mikulski is chairing. Senator DeConcini is on the floor with the crime bill and is in the midst of an amendment. I will conduct the hearing and proceed with his questions until such time as he arrives and maybe have one or two questions of my own.

PREPARED STATEMENT

So, we welcome you this morning and I ask unanimous consent that the chairman's statement be placed in the record. He appreciated, in the midst of the budget summit, you making yourself available to come here.

[The statement follows:]

STATEMENT OF SENATOR DECONCINI

The Subcommittee on Treasury, Postal Service and General Government will come to order. Today the subcommittee will conclude its fiscal year 1991 budget hearings by taking testimony on the fiscal year 1991 budget of the Office of Management and Budget.

We are pleased to have with us this morning, Mr. Richard Darman, Director of the Office of Management and Budget. Welcome, Mr. Darman. This hearing has been a little slow in coming with all of the schedule conflicts, and while I recognize the pressures you are under right now with the budget summit, I appreciate your

making the time to fit this very important hearing into your obviously busy schedule.

The fiscal year 1991 budget for the Office of Management and Budget totals \$49,305,000 and 577 full time positions. The proposed budget represents an increase of \$4,988,000 over the fiscal year 1990 post sequester level. We have a number of questions regarding the OMB budget which we will submit for the record if we do not have time to get to them today. In the meantime, Mr. Darman, I want to spend some time this morning on some major issues of concern to this subcommittee. One of those issues deals with the scorekeeping changes being proposed by OMB for Federal office space needs. I understand this subject matter presents a potential conflict for you, so at your request, I am prepared to turn any questions on this subject to your deputy, Mr. William Diefenderfer, once we have completed questioning on other topics.

Without further delay, Mr. Darman, you may introduce any individuals you have with you today and proceed to your opening statement.

BUDGET REQUEST

Senator MIKULSKI. Senator DeConcini notes that the Office of OMB totals \$49 million and 577 full-time positions. The total budget represents an increase of \$4.988 million over the fiscal year. He wanted me to tell you we have a number of questions regarding the OMB budget which we are going to submit for the record. In the meantime, we want to spend time focusing on the major issues. Many of our questions will deal with scorekeeping changes proposed by OMB for Federal office space needs. I might add, as the Senator from Maryland, I am obsessed with that same set of questions.

I understand that this subject matter presents a potential conflict for you, so at your request, I am prepared to turn any questions on this subject to your Deputy, Mr. Diefenderfer, once we have completed the questions on the other topic.

So, without delay, Mr. Darman, you may introduce any individuals that you have and proceed with an opening statement and then we will just move on as expeditiously as we can.

STATEMENT OF RICHARD DARMAN

Mr. DARMAN. Thank you very much, Madam Chairman. Good morning to you and I appreciate your willingness to chair this session. I understand Senator DeConcini's need to be on the floor at this time.

Good morning, Senator Domenici.

Senator DOMENICI. Good morning, Mr. Director.

Mr. DARMAN. It is a pleasure to be here before you and it is a pleasure to have an opportunity to present the fiscal year 1991 budget request of the Office of Management and Budget.

Madam Chairman, I have a brief opening statement which, with your permission, I would read. It is quite short. As you have noted, I am accompanied by my Deputy, the Deputy Director of OMB, William Diefenderfer, the distinguished William Diefenderfer, who will be prepared to respond fully to all of your questions on the subject about which you say you are obsessed.

Senator MIKULSKI. And compelled to pursue.

Mr. DARMAN. And I am delighted he is here.

May I read this statement?

Senator MIKULSKI. Yes, please.

Mr. DARMAN. Thank you.

The President's request proposes, as you have noted, \$49,305,000 for OMB. In real terms, this is actually below the level at which OMB was funded a decade ago. I would note, as an aside, that this might be compared with \$454.9 million for GAO and CBO. That is, GAO and CBO, whose functions are in many ways similar to OMB's, have a combined budget that is almost 10 times OMB's.

Further, both GAO and CBO have asked for larger percentage increases than OMB has. In fact, GAO has asked for an increase of \$69.5 million. That substantially exceeds OMB's entire budget.

For fiscal year 1990, OMB requested and the Congress approved increased resources for additional staffing primarily for management functions. This additional staffing was and is necessary to improve OMB's oversight of Federal agencies to ensure program integrity and effective management. OMB is currently hiring the additional staff and is not now proposing to increase staffing above the fiscal year 1990 level.

Last year when I testified before this subcommittee, I said that more attention needed to be directed to strategic planning, major program implementation, program oversight and evaluation, and longer term investment issues. I talked about the need to reform the budgetary treatment of Federal credit programs and to agree upon a set of principles for scoring the budgetary impact of various actions or proposals.

I also said that I wanted to establish a better system for tracking policy initiatives and priorities through a simple management by objectives system, and OMB is moving forward now on all of these fronts.

For fiscal year 1991, much of OMB's requested increase is intended to ensure that staff have the necessary systems and equipment to do their jobs effectively. OMB is requesting \$2.7 million for improved budget and financial information systems and office automation.

We must modernize the budget and financial information systems used in formulating the President's budget and in responding to congressional requests and demands. These systems, which have not been substantially updated since they were established in the 1960's, simply cannot perform the necessary data analysis without long turnaround times and burdensome programming. The systems have not satisfactorily adapted to changes in the budgeting process such as the requirements created by Gramm-Rudman-Hollings and numerous other requirements imposed upon us by the Congress.

In addition, OMB must be able to track management improvement efforts in high-risk areas and monitor the OMB system that I referred to and that we established last year.

We're requesting an increase of \$2.2 million in personnel funds to maintain the fiscal year 1990 staffing level of 577 full-time equivalent people. Over 70 percent of OMB's budget is spent on personnel costs. Another 11.5 percent is for rent payments to GSA. We are requesting an increase of \$253,000 to pay higher GSA rates for office space, but I would underline, we are not proposing to use more space or better space. We have simply been charged a rent increase. The increased costs reflect exactly that.

It should be noted that in nominal terms, we are requesting less funding for travel, communication/utilities, and printing, and using less space than we had in 1981.

With that as a summary, I would thank you again for the opportunity to present our views. We look forward to continuing to work cooperatively with this committee, and would be happy to address any questions the committee may have on either the OMB budget or other budgetary issues for which we are responsible.

I might just note as a concluding observation, Madam Chairman, that all of this discussion is academic, if there is no significant budget agreement, because if there is no significant budget agreement, we will be operating in the context of a radical sequester, and what we are discussing here would be essentially irrelevant for OMB, as for a great deal of what your committee looks at, because of the nature of the sequester cuts that would be imposed. I say that only as further suggestion that it is important that we conclude a responsible bipartisan budget agreement, and hopefully, in fairly short order, although I realize that may be a naive hope.

PREPARED STATEMENT

Senator MIKULSKI. Mr. Darman, the nature of the questions Senator DeConcini has—gentlemen, Senator DeConcini is on the floor on his crime bill, the assault weapons amendment. I am going to keep the hearing going. Now, I will ask some of these questions and then note that Senator Domenici is here, and Senator Bob Kerrey. We would suggest that you use your opening statement when you come to your questions, so we can just—

Mr. DARMAN. Fine with me.

Senator MIKULSKI. Is that OK?

Mr. DARMAN. Sure, it is fine.

Senator MIKULSKI. And I understand you have to leave by 12:30, is that correct?

Mr. DARMAN. I would like to, but I am always at your command.

Senator MIKULSKI. Oh, come on. [Laughter.]

Mr. DARMAN. Look what we did together for space.

Senator MIKULSKI. I know, we are going to do some more. Maybe I ought to excuse myself from the subcommittee, since we are going to be arm-wrestling for 302(b)'s here.

Mr. DARMAN. We are on the same side.

[The statement follows:]

STATEMENT OF RICHARD DARMAN

Mr. Chairman, Senator Domenici, and Distinguished Members of the Subcommittee: It is a pleasure to present the fiscal year 1991 budget request of the Office of Management and Budget. The President's request proposes \$49,305,000 for OMB. (I would note, as an aside, that this might be compared with \$454.9 million for GAO and CBO. That is, GAO and CBO, whose functions are in many ways similar to OMB's, have a combined budget that is almost ten times OMB's! Further, both GAO and CBO have asked for larger percentage increases than OMB has. In fact, GAO has asked for an increase—\$69.5 million—that substantially exceeds OMB's entire budget!)

For fiscal year 1990, OMB requested, and you approved, increased resources for additional staffing, primarily for management functions. This additional staffing was and is necessary to improve OMB's oversight of Federal agencies to ensure program integrity and effective management. OMB is currently hiring the additional staff, and is not now proposing to increase staffing above the fiscal year 1990 level.

Last year, when I testified before the Subcommittee, I said that more attention needed to be directed to strategic planning, major program implementation, program oversight and evaluation, and longer term investment issues. I talked about the need to reform the budgetary treatment of Federal credit programs and to agree upon a set of principles for scoring the budgetary impact of various actions or proposals. I also said that I wanted to establish a better system for tracking policy initiatives and priorities through a simple Management by Objectives [MBO] system. OMB is moving forward on all of these fronts.

For fiscal year 1991, much of OMB's requested increase is intended to ensure that staff have the necessary systems and equipment to do their jobs effectively. OMB is requesting \$2,757,000 for improved budget and financial information systems and office automation. OMB must modernize the budget and financial information systems used in formulating the President's budget. These systems, which have not been substantially updated since they were established in the 1960's, simply cannot perform the necessary data analysis without long turn-around times and burdensome programming. The systems have not satisfactorily adapted to changes in the budgeting process, such as the requirements created by Gramm-Rudman-Hollings. In addition, OMB must be able to track management improvement efforts in high-risk areas and monitor the MBO system established last year.

OMB is requesting an increase of \$2,238,000 in personnel funds to maintain the fiscal year 1990 staffing level of 577 FTE's. Over 70 percent of OMB's budget is spent on personnel costs. Another 11.5 percent is for rent payments to GSA. OMB is requesting an increase of \$253,000 to pay higher GSA rates for office space. OMB is not proposing to use more or better space. The increased cost reflects what is simply a GSA rent increase for current space.

It should be noted that, in nominal terms, OMB is requesting less funding for travel, communication/utilities and printing, and is using less space, than OMB had in 1981.

Thank you for the opportunity to present our views. I look forward to continuing to work cooperatively with the Committee, and would be happy to address any questions the Committee may have on either the OMB budget or the larger budgetary issues for which OMB is responsible.

STATUS OF BUDGET NEGOTIATIONS

Senator MIKULSKI. Mr. Darman, these are the questions that Mr. DeConcini wanted to have asked about the budget process. He said you have met with the House and Senate leadership for the past several weeks to discuss negotiated solutions to our budget dilemma.

Could you give the committee some information as to where you are in the summit process? What are the issues being discussed, and when do you think you will see a product from these meetings? Where are you on the issues, what are the issues being discussed, and what kind of timeframe are we talking about?

Mr. DARMAN. Thank you, Madam Chairman.

Where we are is, we have reviewed our estimates and revised estimates of the underlying deficit forecast. We compared these with those of the Congressional Budget Office. We are doing so in order to try to reach some consensus on a baseline, so that if we are able to produce an agreement, we are able to do so on a basis that the public and members of Congress and others would find credible, and because there have been differences between us and CBO in the past on a number of important estimating issues, we thought it useful to try to close the gap with respect to those differences.

We made great progress in that respect, although there are some significant differences still outstanding. The deficit picture is very negative, principally because of the S&L costs, about which Secretary Brady is testifying today, I believe, before the Senate Banking Committee. And not just the losses associated with that, but the

working capital demands associated with that, which are in the tens, perhaps hundreds of billions of dollars.

The group has been discussing what not only are the numbers, but what are the issues related to the accounting for such things as S&L losses and S&L working capital. I will not bore you with that unless there is a particular interest in it; I will be happy to talk about it, if there is.

In some ways, you could say that we are going through necessary preliminaries and that so far by any measure, in terms of coming to a substantive agreement, we have not made progress. But I think that is natural for the preliminary stage. It is essential that we have some common data base. We are developing that.

It is my very strong hope that we will move past this phase quickly, and I met yesterday with Senator Fowler on behalf of the Senate representatives and Dick Gephardt on behalf of the House Democratic representatives to try to see if we could come up with a schedule and an agenda that would be available and somewhat more expeditious, more ambitious, than what we have seen to this point.

It is my personal view that we ought to be meeting every day, not twice a week, and that we ought to get over what we might consider the exploratory or educational stage in an efficient way and get on to serious negotiating. I do not believe that there is a tremendous amount new that is to be exposed or analyzed. I really think that what is to be determined is, do the parties wish to negotiate seriously a comprehensive solution to the problem. The only way to find that out is to get to the business of actually negotiating.

So to jump to your question, when, I would hope that after this recess it would be possible for that group to spend perhaps a week going through all of the additional subjects that have to be explored in this exploratory phase. Differences in numbers, programmatic interests, alternative packages, and so on, of different members, things that are already on the table but that have to be common knowledge: If we could get all that done in a week, then I would hope that we could get down to talking more seriously about possible compromises, possible packages that would be potential negotiated settlements as soon as the following week.

The reason I mention this is—and have this somewhat more ambitious interest in seeing us move quickly—is that I think it will make the work of the appropriations process go a whole lot better if we are able to reach some conclusion relatively quickly. It will also allow the Senate not to have to waste time on a budget resolution, for example, that might be rendered academic weeks later, if it were brought up now, when an agreement were going to reach fruition in a month and a half from now.

As I said in concluding my introductory statement, I realize it may be naive to wish to move more quickly, and if we cannot move more quickly, the administration is prepared to work at any speed the Congress would wish, but our preference—

Senator MIKULSKI. What was the response to this timetable that you proposed, from the designated hitters for the House?

Mr. DARMAN. They had to go consult with their colleagues, so we did not have that. We are going to consult again today and they were going to consult with you and others.

Senator MIKULSKI. But it is your hope, your proposal that the Congress, upon its return from the Memorial Day recognition, that the summiteers meet on a daily basis and then come in with something different than the House budget resolution?

Mr. DARMAN. Yes, definitely.

Senator MIKULSKI. And different than the Senate budget resolution and that of the Budget Committee?

Mr. DARMAN. It will inevitably be different, I think, from either the Senate Budget Committee resolution or the House-passed resolution, which is normally passed by a very slim majority and which Chairman Panetta himself says does not adequately do the job. It will be different from those two, it will be different from the administration's, it will be different from any other plan that has probably been put on the table because it will be a negotiated agreement. If it works.

IS EVERYTHING ON THE TABLE AT THE BUDGET SUMMIT?

Senator MIKULSKI. One of the things that Mr. DeConcini was pursuing and I know I am, as well, is that we have heard conflicting reports out of the White House as to whether or not everything is on the table in these summit meetings. Can you clarify for us whether or not everything is on the table for consideration?

Mr. DARMAN. We have said I think unequivocally on the President's part that, and I believe that in the executive branch his voice is really the only voice that counts, the President has in my opinion been absolutely unequivocal that there are no preconditions for these negotiations, which is a way of saying that, depending on how you like to look at it, either everything is off the table or anything can be on the table, or everything is on the table.

Any way you would like to phrase it, no preconditions means exactly that to me and those of us who will be negotiating on his behalf. I may say that he, himself, will be participating from time to time, so that to the extent that people are concerned that perhaps the no preconditions understanding would be different in different places, that is not exactly relevant since he, himself, will be able to give it meaning.

Senator MIKULSKI. Is the White House considering or evaluating proposing new taxes, new user fees, or given the magnitude of the S&L bailout which is, I think, exceeding the original estimates, considering a temporary surcharge on corporate or individual taxes above a certain level?

Mr. DARMAN. No; we are not considering that.

Senator MIKULSKI. I asked three questions—on taxes, user fees, and temporary surcharges—to deal with the S&L fiasco.

Mr. DARMAN. Well, on user fees, we do have some additional user fees that are not yet administration policy but that have been analyzed, and at an appropriate stage in the negotiations, after exploring other issues as well, I am sure we would be prepared to talk about those. They are not yet administration policy, but we have them under analysis, of course.

On income tax surcharges for either corporations or individuals, we have not analyzed that issue and while the no preconditions rule would forbid my saying that those would be out of the question, I can only speak for the administration in saying that we have not analyzed those, and based on what I do know about our view of the merits, at this point we would not favor them.

As to taxes generally, the first part of your question, it is too abstract. There is already in our budget \$13.9 billion in increased receipts from revenue measures and there is another \$5-plus-billion from user fees. If you combine the two, it is almost \$20 billion in increased receipts, some of which some people would call taxes, some of which some people would not. But I think that the issue ends up turning on the particulars more than the abstract.

SAVINGS AND LOAN BAILOUT COSTS

Senator MIKULSKI. I just want to follow up on the temporary surcharge question, and I know my colleagues are anxious also.

How much time have we used? We have used about 10 minutes. We will go under the 10-minute rule.

If I might just put on my hat as the Subcommittee Chair of VA and Independent Agencies, following up on the cost of the S&L bailout. We have responsibility in that subcommittee for funding the FSLIC resolution fund, which essentially takes care of the obligations prior to 1989—

Mr. DARMAN. Right.

Senator MIKULSKI [continuing]. Pre-FIRREA, those 200 S&L's.

Mr. DARMAN. Right.

Senator MIKULSKI. Last year, that subcommittee gave a blank check at the request of the administration to deal with that. The original estimate for dealing with that was \$1.8 billion. When the expenditures are completed, the final cost will be closer to \$4 billion. A tremendous underestimate of costs, and also it is because certain bonds did not go. We will not discuss that during this hearing, but as an appropriator sitting over there, we are now just seeing that things can cost more. Techniques that we thought would generate revenues are not producing those revenues or have not been taken through the marketplace for a variety of actions, which I will assume to be wise ones. We are not armchairing this.

But then, when it concerns billions of dollars, the question is, even in that particular niche of the bonfire of the S&L's, that is still \$3 to \$5 billion that we did not estimate. Our subcommittee and this committee will have to decide whether to again provide an open-ended appropriation.

These are the considerations, along with the question of where the revenues will come from. That is why—and I am not advocating this as a solution, but I think the cost of the S&L's in meeting our responsibility—which I support the President on—to depositors is going to be a tremendous drain on the economy. I mean, roads not built, et cetera.

My question is, is getting the revenue and getting it in an efficient, equitable way, and are things like a temporary surcharge, and other things, particularly to deal with the S&L fiasco, which

was never anticipated when we did Gramm-Rudman, under consideration?

Mr. DARMAN. Well, I understand and sympathize with your concern about the estimates being off and the practical problems that that can cause for you in your committee. It has that effect for the budget as a whole, too, as you know. Indeed, the working capital problem makes the one you just alluded to look very small. The working capital problem will turn out to be over 100 billion dollars' worth of additional financing in a very short period of time.

Now, that financing can be done with borrowing, and that is what we are doing. That is what Treasury now is doing, unprecedented degrees of borrowing for this special purpose through the Federal financing bank.

One of the reasons we thought it important to get moving on the budget summit was the prospect of all of this additional borrowing in a relatively compressed period, when combined with the ordinary deficit financing requirements. And a bit less capital available from Europe and Japan, perhaps.

The combination of these things could lead to upward pressure on interest rates and then make everything worse, the economy softer, the deficit worse, and so on. So, we thought it important for this reason as well to get moving on a bipartisan budget agreement that could reduce the borrowing requirements.

If you could reduce the borrowing requirements to a point where it does not threaten the economy, then in effect you are paying off the Government obligation over an extended period of time, and you could think of this as a moral matter. Well, I know people have talked about the negative side of the moral matter, but let me just raise an additional one.

If you finance it with borrowing, you are essentially stretching the cost of paying for the problem across a future population. If you were to say, "Let's cover it all with taxes right here and now," you would be putting a very heavy burden on the taxpayers of today for a problem that was created over 10, 15, 20 years by a prior generation. And it is, at least to me, an interesting philosophical question, in addition to an economic question, whether it would be appropriate to do it that way. We think it would not be appropriate to have a big tax infusion, to charge all the taxpayers of today and next year for a manageable but very large financing problem that can be handled over a more extended period of time.

But there is still an inequity in it, because, in effect, you are spreading the charge over a much longer period of time, a smaller charge, for what we could consider sins of the past.

IMPACT OF SAVINGS AND LOAN BAILOUT ON OTHER PROGRAMS

Senator MIKULSKI. Well, Mr. Darman, my time is expired. I am going to turn to my colleagues.

First, just to comment on the moral nature of it, the mortal sins were created by the SOB's who ran the S&L's, and now the question is why the people are paying for it. They are going to pay for it by not getting a light rail system, not getting the beltway modernized, not having money to go into research to find cures for cancer or Alzheimer's or Parkinson's, not to be able to come up

with an authentic long-term care policy. We are paying for it, and we are paying for it in our day-to-day lives. Like you, we want to meet our responsibility to the depositors and to the ordinary Americans.

PREPARED STATEMENT

I am going to ask unanimous consent that my original statement go in the record, and that my questions on Federal facilities be submitted for the record.

[The statement follows:]

STATEMENT OF SENATOR MIKULSKI

Mr. Chairman, I am glad to be here today to welcome Mr. Darman and Mr. Diefenderfer of the Office of Management and Budget.

I hope Mr. Darman and Mr. Diefenderfer will be able to shed some light on the topic of Federal agency building projects and how we are going to fund them.

I am very concerned that several agency relocation and consolidation projects—which OMB, GSA and the Congress have already agreed should take place—proceed according to plan.

We owe it to our Federal employees to provide a decent, safe, healthy working environment.

We owe it to the public to have facilities that will enable services to be provided conveniently and effectively.

Finally, it is our obligation to watch each Federal dollar and see that it is well spent.

The placement of a number of Federal agencies directly contradicts each of those objectives.

For example, the Food and Drug Administration [FDA] is spread among 23 different buildings at seven separate sites in the Washington area. That creates tremendous inefficiency.

Because their facilities are so widely dispersed among so many different sites, FDA employees find it difficult to communicate with each other.

There are significant unnecessary costs incurred by duplicating a lot of the same equipment which can't be shared—time lost by personnel traveling from site to site—professional interrelationships disrupted because researchers and other professionals are spread out among different buildings.

The facilities of the Army Corps of Engineers in Baltimore City, and the Health Care Financing Administration near Baltimore, create the same type of inefficiency.

We see the same problem with many other Federal agencies. Many of these are presently housed in cramped, outdated, inadequate, and often expensive, space. Sometimes new technology has created a need for larger space. Some buildings have asbestos and other environmental problems. OMB has recognized these serious problems. And yet, by changing the rules in the middle of the game, OMB has thrown each of these projects into doubt.

The Congress agreed to fund some of these projects through direct construction, and others through lease-purchase agreements. Under a lease-purchase agreement, the Government gradually acquires ownership of a project over an extended period of time, such as 30 years.

It may be that because of the financing cost, that is more expensive than if we were to pay for the entire project up front. However, long-term capital financing has historically been used for major capital projects.

It is not unlike the way most of us buy a house. It would be cheaper to simply buy it outright, but few of us have the resources to do that. So we enter into a financing arrangement.

Now, I understand that the Federal Government has resources that most families don't have. And I don't object to the concept of up-front purchases—as long as these necessary projects proceed and are not delayed. But if we have to wait until we have sufficient budget authority to pay for all of these projects at one time, I'm afraid we will have to wait forever.

Meanwhile, we will be wasting even more money on short-term leasing—because these agencies must be housed somewhere. That's why I'm encouraging OMB to work with us in the Congress.

Perhaps some of these projects can be done on an up-front, direct construction basis. Perhaps others will have to be done on a lease-purchase basis.

Let's get past this impasse. Let's get these projects underway, and get on with the business of serving the public efficiently and economically.

STATEMENT OF SENATOR D'AMATO

Senator MIKULSKI. I would like to turn now to the ranking member of the Budget Committee, minority member, Senator Domenici.

Senator DOMENICI. Thank you very much.

Senator MIKULSKI. Thank you, thank you for your candor. Before you proceed with your questions we have a statement from Senator D'Amato to be inserted in the record.

[The statement follows:]

STATEMENT OF SENATOR D'AMATO

Mr. Chairman, I would like to welcome to the subcommittee this morning the distinguished Director of the Office of Management and Budget, Richard Darman.

Recently, all eyes have been focused on the White House as the budget negotiations continue. The subcommittee will be interested in hearing your view of how the negotiations are proceeding.

As far as your budget for fiscal year 1991, OMB is requesting \$49.3 million; \$2.23 million of this total is for personnel funds to maintain the fiscal year 1990 staffing level of 577 full time employees. There is also an increase of \$253,000 to cover increases in rent payments to GSA.

I look forward to your testimony this morning as the subcommittee considers the fiscal year 1991 budget request for the Office of Management and Budget.

Thank you, Mr. Chairman.

WHY ARE WE HAVING A BUDGET SUMMIT NOW?

Senator DOMENICI. I had all these important questions about pay absorption and mandatories and their impact on the agencies of the Government and your new scoring rules on Government property, and I thought that is why all the media came. [Laughter.]

I assume we will ask you some of those questions in due course, and I have a few, but let me just follow on with the line of questioning regarding the summit, if I might, Mr. Darman.

Could you once again explain for us briefly, if you can, why we ought to fix the Federal budget now? I have heard you say that we are going to have a very big sequester and perhaps, if I have enough time, I will ask you for a few examples of what a \$60 billion sequester would mean, in terms of things that we understand around this table. But could you tell us, since it is very important to this subcommittee in terms of its appropriations responsibilities, where we are going to end up, what we are all about, why a summit now, why fix the budget?

Mr. DARMAN. Yes, sir; thank you very much for the question.

The deficit problem will be worse than we forecast in January for a variety of reasons. One set relates to the state of the economy relative to what we forecast. Actually, we are not that far off with respect to that. We are a little bit off. We are off by amounts not dissimilar from the past. If that were the only problem, one might say we did not need extraordinary action. But there is in addition to that problem the S&L financing problem, and it is extraordinary and we have discussed that, and the magnitudes are just very, very much larger than the budget system is prepared to deal with.

Now, at the time we submitted our budget, a decision had not yet been made on how to finance the working capital needs for the resolution of S&L's. I put a note in the budget which alerted anyone who wished to read it, it is a substantial note. I mean, it is not a footnote; it is a chapter. It said that this problem is coming, it is about \$140 billion, but no decision has yet been made on how to finance the working capital, so we cannot tell you how we would score it.

Subsequently, in part because we think it is right and in part because key people in the Congress thought it was right, we decided to finance it on the least cost basis. Least cost means through the Treasury, through the Federal Financing Bank. That saves the taxpayers some money over the long term, relative to other financing approaches. But under our current scoring conventions, by which we are bound legally, that means that the working capital financing for the workout has to be on budget. That means we could add as much as \$50 billion for that alone, could be, these estimates are right, plus or minus perhaps \$15 billion or more. I mean, they could be off, way off.

It could be \$50 billion more for that alone in fiscal year 1991. Now, that is not some small amount of money, even by Federal Government standards, and that, when added to the difference that the real economy performance has made, that means that if we were to just do business as usual, we would likely head to a sequester in excess of the \$60 billion you referred to. The sequester could be well over \$100 billion if we operated under current law and did the least cost financing for the S&L working capital and did it through the Federal Financing Bank and scored it on budget.

Now, what that means, as your question correctly suggests, is that if we allowed ourselves to do business as usual, what we would do is, we would be playing with budget resolutions that are, compared to that scale problem, tinkering, and we would find out in October what those of us who deal with this can confidently predict right now, that all of a sudden there is a sequester that would cut across-the-board discretionary programs by as much as 45 or 50 percent. Very radical cuts, not like last year's. Last year we were talking about—

Senator DOMENICI. Is there a vote on?

Senator MIKULSKI. Yes.

Senator DOMENICI. Now?

Senator MIKULSKI. Yes.

Senator DOMENICI. We have 15 minutes. Can somebody tell us where we are on the bill? I am almost through. Let me—

Mr. DARMAN. Let me just say one quick thing. I know you have got to run, Senator Domenici, but just to put it in perspective: Last year, we were talking about \$16 billion; in fact we ended up with \$5 billion as a sequester. This time, we would be talking about something that is 20 times as large, and that just means that we would end up in negotiation in the fall, anyhow, and why do it in that clumsy, crisis-driven atmosphere? Why not try to do it more responsibly and in advance. That is the thinking that underlies the move to this negotiation.

Senator KERREY. If the Senator would yield, I apologize, but I have a question. Mr. Darman, you mentioned two of, I thought, of

three points. You were mentioning why the deficit is larger than what you thought in January. One was——

Mr. DARMAN. Economics.

Senator KERREY [continuing]. Economic numbers, and the second one was S&L. Was there——

Mr. DARMAN. No; if I said three, I apologize, I really meant two broad headings, and under the first, it so happens, there are a couple of subheadings, but I skipped them.

Senator DOMENICI. Mr. Darman, I understand we may have to leave——

Senator MIKULSKI. Wait, wait, wait. We are just getting this all straight. If we can wait, just so you know how to pace yourself——

Senator DOMENICI. Sure.

Senator MIKULSKI. This is a very informed kind of question.

WHAT MAKES YOU THINK THE SUMMIT WILL BE SUCCESSFUL?

Senator DOMENICI. Let me proceed for just a moment. Mr. Darman, I understand what you have just said. Let me, if you would please, at least exchange views with you. Personally, I do not believe the S&L's and what you have just described, other than we have to work on some way to handle the accounting, justify the kind of economic summit conference that I believe we are busily engaged in.

As I understand it, the purpose of this summit is to fix the deficit permanently, where we know that in a certain timeframe we will be in perfect balance and, within a certain timeframe, we will be in total balance, including the social security reserves.

I guess what I would like to know from you is what makes you think we can do that, when we have never done it before, and, frankly, I could give my reasons, because I do believe we must, but I would like you to kind of tell us that.

Second, what the American people want to know is, if we are going to do this—I do not mean this in a self-centered way—but what is in it for us; why should we go through this? Things are pretty reasonably good out there. What is your assessment of why we should fix this? Would you answer both of those, please?

Mr. DARMAN. Yes, sir; thank you, Senator Domenici.

When I was answering before, I was trying to answer your question of why now should we have pushed toward the summit. The reasons that you are suggesting really have applied for a period of time, and the reason I focused so much on the S&L thing is it is what is extraordinary at this particular time. The underlying deficit problem has demanded attention for a long time. It has had its increments, small increments since 1982, almost every year and, as you know, it has improved somewhat, but slowly in that period.

But what is extraordinary now is the financing requirements for the working capital. When you combine that with the underlying deficit problem and its financing requirements and what may be, at the margin, a declining availability of capital from Japan and Europe, and now that our own savings rate is not increasing to make up the difference, you have to expect extra pressure on the long bond market, which, to put it more concretely, means higher interest rates. Higher interest rates could mean the economy going

from what is now growth, although it is too slow growth, into a recession, and we should be trying every reasonable measure to avoid that.

So, it is important that we have a deficit reduction package, in order to avoid the upward pressure on interest rates, the potential downward effect on the economy, but it is also important that the character of that package itself be consistent with our interest in continuing economic growth. And we agree with you completely that it ought to be on a multiyear basis and the American people ought to have some basis to believe that it is credible and real and that we are not going to be right back in the same problem a short time later.

My personal view is that people who are saying we need to go educate the American people as to the nature of the problem are not giving the people enough credit. But I am not an authority on this subject; you all are more knowledgeable than I. But it is my distinct impression that most people believe there is a deficit problem and do not like the enormous buildup of Federal debt. I have said at time that it amounts to over \$45,000 now per family of four, if you prorated it, which is like a second mortgage without the second house.

There is no reason the public should like to have over 3 trillion dollars' worth of debt, over 6 trillion dollars' worth of contingent liabilities, and I do not think personally that the public needs to be told that that is undesirable, but on that point, I will defer to the politicians.

So, I think the public thinks there is a problem. I think that the public would be skeptical and justifiably skeptical of whatever we say it is that is going to solve this problem, because there have been several grand solutions in the past that have really not materialized, and our own credibility has fallen over the past decade, collective credibility, not just the administration's.

So, it is very important that what we come up with be on its merits defensible, as fixing the problem over a multiyear period, which, as I take it, is the point of your question.

Senator DOMENICI. While I agree with you that, in the interest of future generations and a vibrant American economy and standard-of-living increases, we have to fix this deficit, my question is why should the people believe that this is going to be any different than in the past? I assume what you are saying is that by the extraordinary nature of it, the commitment of the President, no preconditions, putting everything on the table and everybody saying we are going to have a multiyear budget fix, is that if that is not real and achievable, obviously, we will have nothing to sell to the American people. If it is, then clearly it is your thought, and I assume the President's, that it would be palatable to the American people, because it is going to get the job done.

Mr. DARMAN. Yes, sir; I think the American people already appreciate there is a problem. I think they are skeptical, and they should be, about whether we are going to address it, but if we address it responsibly, I think they will know the difference between a good package and a bad package. They can tell the difference, in my opinion. And if we produce a good one, I believe it will be recog-

nized as such. By the way, if we do not, I think it will also be recognized as such.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator DeCONCINI [presiding]. The Senator from Nebraska.

OMB STAFFING LEVELS AND ORGANIZATIONS

Senator KERREY. Thank you, Mr. Chairman.

Mr. Darman, I am trying to get a sense of how you organize OMB and how many people are assigned the task of managing the budget and how many people are assigned the task of managing the operations of Government. How many people do you have in all working for OMB?

Mr. DARMAN. 577 full-time equivalent is what we are authorized, although at the moment, which is a low point in the cycle, we lose a lot of people each year after the budget process is completed for that year, and then we rehire with graduate school graduates in the late spring. We are now probably down near 520.

Senator KERREY. How do you have it organized, then, generally? You have individuals that are assigned different agencies of Government, I assume?

Mr. DARMAN. Yes; we are divided into four broad program areas that cover the whole Government, from the standpoint of budget and program review in each of these four broad categories. One is defense and international affairs, another is human resources, labor, and another is commerce and justice and so on. They are divided into these four broad categories, and the fourth is environment and natural resources and science.

And within each of those there is an oversight responsibility for all the programs in that category and the associated departments and small agencies in that category. That is where the bulk of OMB people are. A very small portion of OMB people are in what is known as the management group. It is moving toward 70-some-odd people. That is way down from what it was in the 1970's and very early 1980's, but it is way up from when I got there. It is almost, perhaps double from when I got there. At the margin, what I have been doing is trying to increase the investment in the management side of OMB, the investment and staff resources in the management side of OMB, without depleting the capability of these four basic program and budget oversight organizations.

COMPARING JANUARY DEFICIT ESTIMATE TO CURRENT ESTIMATE

Senator KERREY. How was the estimate of what the deficit was going to be in January determined? When the President said to the Nation that we have the deficit under control, what sort of analysis did he have? Did your staff people prepare the analysis of the deficit—

Mr. DARMAN. Let me try to—

Senator KERREY [continuing]. That caused the President to conclude that the deficit was under control in January?

Mr. DARMAN. Well, the underlying deficit, the underlying deficit apart from the S&L problem, is radically improved from where it was in the mid-1980's. Most of the statements made in January, if

you take out the S&L thing, would still apply. But let me try to separate for you the——

Senator KERREY. Excuse me. As I understand it from reading the newspaper this morning, the estimate now for fiscal year 1991, excluding the S&L cost, is about \$190——

Mr. DARMAN. No; that is included. That is including the S&L.

Senator KERREY. That is including the S&L? Including working capital?

Mr. DARMAN. Right.

Senator KERREY. And then the trust expenditures on top of that?

Mr. DARMAN. That is including the Social Security trust fund, if that is what you mean.

Senator KERREY. Excluding the——

Mr. DARMAN. No; it is including the favorable contribution of the Social Security and other trust funds. But could I just say a word about the estimate, so you understand?

Senator KERREY. Yes; I would just like to know how many people you have assigned to the task.

Mr. DARMAN. Could I give you a little bit in the way of response, because it is a complicated subject. You need economic estimates, actuarial estimates, and all kinds of other technical estimates. There are 190,000 accounts in the budget. If you spent 1 minute on each account, you would be talking about 1½ years. So just to look at each individual account in any serious way is a substantial amount of time.

Now, the economic assumptions come from what is called the troika: the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Director of OMB. Those are a negotiated settlement among the three of us, so they are not an OMB product, they are a troika product, the economic assumptions.

The technical assumptions come bottom up from all throughout the Government, so for example the Social Security estimate comes from the Social Security actuaries. There are hundreds of them, or people who work for them, who are doing estimates, very detailed estimates. The same is true for Medicare, the same is true for Medicaid, and so on across the whole Government. Throughout the departments there are people who are in the departments doing these estimates.

OMB aggregates them and we have people who oversee to say, "Does that seem right, does that seem wrong, is this technical analysis sound, as we see it, or not?" It is obviously impossible for us to oversee every single element of it in detail, but selectively we do go into it in very considerable detail.

Senator KERREY. Well, Mr. Darman, the reason I am——

Mr. DARMAN. By the way—excuse me for interrupting, but last year, in a budget that is larger than the entire economy of West Germany, we predicted outlays for which we are principally responsible almost to the dime. In other words, I mean, that is much better than average, but these people who do the technical estimates throughout the system bottom up do not do all that badly when you look at the scale of what they are dealing with, a trillion and a quarter.

Senator KERREY. You know how many people I have analyzing the budget?

Mr. DARMAN. I would bet one and one-half at most.

Senator KERREY. Myself and whoever else I can manage to muster up that might have read the New York Times or Washington Post or the Wall Street Journal the morning prior to the first committee meeting that I have got. Apparently I did not read the newspaper clearly enough, because I got the numbers off when I asked you the question.

Mr. DARMAN. But you have us to draw on. [Laughter.]

IS THE DEFICIT UNDER CONTROL?

Senator KERREY. That is precisely my point. The President in January said that the deficit is under control and now in May we have a radical alteration of the estimate.

Mr. DARMAN. No.

Senator KERREY. Now——

Mr. DARMAN. No; what the President said was that the underlying deficit is probably stabilized, and that is still correct. As a percentage of the GNP, the underlying deficit is probably stabilized.

Senator KERREY. No, no; but we are not going to sequester on the basis of a percentage of the GNP. If we sequester, it will not be as a consequence of a percentage; it will be as a consequence of a real dollar figure that exceeds Gramm-Rudman-Hollings.

Mr. DARMAN. Let me ask this, if I might——

Senator KERREY. Is that right or wrong?

Mr. DARMAN. That is right, but I am not sure what is at issue here, because the reality is that you could have had me keep my mouth shut on this subject and wait until October and be faced with this big sequester, or you could have had me come forward and say, "The rate at which we are consuming capital for the workout of the S&L's is going to drive us into sequester of a scale that the political system needs to be aware of."

I chose the latter course.

Senator KERREY. I am not suggesting at all that you should keep your mouth shut, Mr. Darman. Quite the contrary. I am suggesting to you and the American people that you have the responsibility to prepare Congress, the representatives of the people, when this problem is larger than what we thought it was going to be.

Moreover, Mr. Darman, I suggest that you have the responsibility and the resources to propose what ought to be done. Part of the defect that I find in the summit deliberation is that Members of Congress are going to come woefully unprepared to be able to make suggestions, particularly when we hear the President say, "Gee, I cannot tell the American people the full extent of the problem because I am concerned about the impact on the market."

Well, the market knows. The market understands the full extent of the deficit and the problems of the S&L's. They have an estimate of the borrowing that is going to occur this year.

Mr. DARMAN. Could I make a point, Senator?

Senator KERREY. Sure.

IMPACT OF SAVINGS AND LOAN BAILOUT FINANCING DECISIONS ON
SEQUESTER

Mr. DARMAN. A couple of points. No. 1, this working capital problem is not a surprise. It is printed in the budget on pages 821 through 823. I highlighted it, I put it in a category all its own, it is in the index, and it says that within 18 months it is going to be \$140 billion, and it says, depending on how the Congress and the administration choose to handle the financing, this could be an enormous sequester problem.

I testified before the Budget Committee, the Appropriations Committee, the Ways and Means and Finance Committee. Do you know how many questions I got on this? Zero. Even though I volunteered it in every case.

Now, we have subsequently decided how to finance this. Having decided in a way that is one of the three alternatives we mentioned, having decided to do it in a way the Congress wanted and we want, least cost through the Federal Financing Bank, a consequence is the effect on sequester that you are talking about. But the problem's existence, the existence of the problem is not news for those who are following this issue seriously. I am one of those, but there are many others. It is not news.

What is news is the interrelationship between the decision on how to finance it, through the Federal Financing Bank, and the effect on sequester, although this specifically notes that that problem could arise if you did it that way.

But I am disagreeing respectfully with the implication that what we have got here is something that is totally unanticipated or unforeseen or radically different. What we have is yes, a substantially larger financing requirement for S&L's within this time period than had previously been assumed and budgeted for, and an interrelationship with the sequester requirement that causes a very substantial problem for all of us that should be addressed.

The basic economic performance, we predicted in our budget for the first quarter of this year real growth of 2.2 percent. Real growth was 2.1 percent. I mean, that is not exactly radically off. For macroeconomic science, that is fantastically close.

On interest rates there is more of a problem. Interest rates have been higher. How much? About one-half of a percentage point across the range of maturities than we forecast. But looking at this financing problem and the fact that the Congress is not on a path that is going to get the underlying deficit down, we are saying that there is an interest rate risk if we do not do something substantial.

We were influenced, I may say, as much by what was happening in the Congress as we were by what was happening in the real world. The House Budget Committee passed 218 to 208; the chance of its being implemented was close to zero. The chairman of the House Budget Committee said that it produced \$26 billion in savings, of which \$13.9 billion had to be negotiated with the administration and the chairman of the Ways and Means Committee, who was responsible for that \$13.9 billion, said he was not going to take any action on it. So that was about, we are talking about a \$15 billion contribution if the House side were implemented.

The Senate Budget Committee had acted on a resolution that includes \$11 billion in the first year for tax amnesty, which CBO scores it zero. The Senate Budget Committee criticizes us for—we gave it a positive number in our estimates, and we were criticized for it. They come in and they look at the same issue and they give themselves \$3 billion for something they gave us zero for, and \$11 billion in another category for something they gave us zero for.

Let us say they are right. It is zero. We are not talking about a prospect of serious deficit reduction, and we need it.

Senator KERREY. I am genuinely confused here, because you say that the underlying deficit estimates are not much greater today than they were in January and—

Mr. DARMAN. If you put the RTC and S&L aside.

Senator KERREY [continuing]. And that you forecast in January in your own budget, on page 800 or whatever it was, that this S&L operating capital was going to be substantial; yet the President, when he addressed the Nation in January, said we have the budget under control. I am trying to figure out what happened between then and May to cause the President now to suggest that we ought to have a budget summit. I am trying to figure out what we are trying to accomplish at this budget summit.

REASONS FOR REVISING DEFICIT ESTIMATES

Mr. DARMAN. I will go back to the point you made earlier, that I had three headings. One of them is the real economy did not perform as well as we forecast. Although we were not off by much, it makes a difference of about \$20 to \$30 billion, which is the more or less standard error.

Two, the S&L thing is substantially larger than we forecast, although the scale of the problem was forecast.

Three, the political system—this is the third one that I did not come back to before—the political system has shown no signs of addressing this problem seriously on its own.

The President's forecast was predicated on the assumption that his program would be implemented. It is clear that his program was not going to be implemented, and it looked to be the case that no program was going to be implemented.

Senator KERREY. As I recall, he could not get a single Republican in the House of Representatives to introduce his budget.

Mr. DARMAN. No; that is not correct. There was a conscious decision made not to have a vote on it in the House, that is correct, but there were plenty of Republicans who actively wanted to introduce it. It was a whip decision, whip-organization decision, in which we ultimately concurred not to bring it up. But it had people who were disturbed that they could not introduce it. That was not the problem.

The problem was, people for tactical reasons wanted to concentrate on Chairman Panetta's resolution and it received zero Republican votes and it lost a substantial number of Democratic votes.

The problem is that the political system left to its own devices, this is category 3, looked like it was not going to produce anything of consequence.

Senator KERREY. Mr. Darman, Congress by definition is an undisciplined body when it comes to spending.

Mr. DARMAN. Right.

Senator KERREY. There is no question, I accept that as a fundamental premise. It is why I believe strongly that—unless the President comes forward and says, “We have a terrible problem here, America,” not just, “We got it under control in January and maybe we need a summit in May,” but, “We have a terrible problem here and we are going to have to face it directly”—unless that occurs, you are not going to get the discipline out of Congress that is required, particularly, Mr. Darman, with the President also saying that by the year 2019 we were going to be standing on the Planet Mars, knowing that that is a \$300, \$400, \$500 billion program.

Mr. DARMAN. That is more likely \$800 billion.

Senator KERREY. So now we have the American people excited about going to Mars—

Mr. DARMAN. Well, let us take a minute, if you would, about that.

First of all, on the President's approach to this, what the President has said, and I have no doubt means, is, we are not in a crisis. The economy continues to function on a path that is moving toward a record level in terms of the amount of time that it will have been growing. But he has also said that that pattern of growth is not as great as it should be and not as secure as it should be, so we should act.

Now, he is saying it is smart to act before a crisis or before a downturn, and so if you want him to act in a context of crisis, you are in effect saying do not act now, wait until the crisis comes and then step forward and say it is a crisis. We think that is not responsible. We think the responsible way to act is in advance, in order to prevent a crisis.

Senator KERREY. Mr. Darman, I am not describing a crisis, but if I have to organize a group of people to assault an objective—

Mr. DARMAN. Right.

WILL THE PRESIDENT URGE THE NATION TO SUPPORT A BUDGET DEAL?

Senator KERREY. I have to give them a reason to assault the objective, especially if in the process of assault there is going to be risk involved. And there is risk involved here—\$60 billion is real money—and if we take that all out without a tax increase, every single person in the Congress has to be able to go to their constituency and say: “We are doing this for the good of America; we are doing this for the good of the country. We know it is going to be difficult, we know you are not going to like it. There are pieces of it that are going to be unacceptable to you. But we are prepared to do it because America is on the line.”

Mr. DARMAN. Well, the second point I want to make about the President's position is this, that he said to the summiteers—this I do not know that he has yet said to the country, but he said to the summiteers, and it has been reported in the press—that if there is progress toward a bipartisan agreement he will assume the responsibility of going to the American people and explaining the nature of the problem, the nature of the solution, and why it is appropri-

ate to take this action, and he will assume a heavy burden of responsibility for getting the public behind this.

I said earlier and I do believe, I think the public is ahead of us. I think the public already understands that there is a problem. What the public is, is extremely skeptical that we are going to do anything constructive in the way of addressing it.

Senator KERREY. But I have the public coming to me saying, "Are you going to support the President being first in the world in math and science? Are you going to support the President in going to Mars? Are you going to support the President in planting 1 billion trees a year? Are you going to support the President to be the environment"—I mean, I have the American people coming to me after he gives a speech asking me to spend more money.

Mr. DARMAN. Well, and they should, on those programs.

Senator KERREY. With all due respect to the summit, I do not think it is accidental that when I hear summiteers, I think of mouseteers. I do not see a call out there to the American people that is going to give the Congress the resolve that is going to be necessary to go home and deliver the bad news.

Mr. DARMAN. See, but one of the things that we perhaps differ on, though maybe we do not, is I think that the summit product should not be all bad news, offset only by the good news of deficit reduction. I think that it would not be responsible to fail to address things like the need to get much better performance in math and science. I believe the need to invest in the exploration of space, and in environmental protection and a host of other things.

In other words, we have to be sure that we can finance these investments. Some of that is positive. Some of it is the reason that we should be doing it. These are not mutually exclusive.

It is not either everything is fine and you can invest in the future of environmental protection and of education and in human exploration and so on, or things are terrible, we have to engage in deficit reduction. The two to some degree go together. We have to get the financial structure under control in part in order to do these other good things.

Senator KERREY. Mr. Darman, I think you are underestimating the difficulty that Congress is going to have pulling \$60 billion out in short order.

PRESSURE TO PROTECT SPENDING

Mr. DARMAN. Oh, no, I have not made any forecast on that. I know that it is extraordinarily difficult. I can assure you that if you would wish to have a job in which you can learn exactly how difficult it is, I do not know any better than OMB's.

Senator KERREY. No; I would respectfully suggest that if you really want to know how difficult it is, go get elected.

Mr. DARMAN. You might be right, but let me tell you what happens in my office. I come up here to hearings and I know this should exclude these Senators—

Senator KERREY. And me as well, I assume. [Laughter.]

Mr. DARMAN. Yes; all, these all.

I come up and I hear one way or another, how we have got to get this deficit under control. The administration has to face up to it,

and generally speaking, the cameras are on and the speeches are excellent. When I get back to my office or even on the way out, let us say this does not happen on the Senate, for hypothetical—

Senator KERREY. The House does it all the time. [Laughter.]

Mr. DARMAN. On the House side, let us say.

Senator KERREY. Hypothetically, of course.

Mr. DARMAN. By the time I am back in my office, there are 4, 5, 6, 7—they keep on mounting—phone calls from the exact people who have made the exactly correct speech telling me how we have to make sure however we fund such-and-such a project or we do not cut farm programs or we do not cut COLA's or we do not touch Social Security or we do not touch Medicare or we do not touch education or we protect the environment, and so on down the list.

Every single day of my life, the same political forces which operate on you come right back and land over at my little office because your colleagues want to make sure that the various things they are interested in are well protected. Many of the people who are saying, "Why do we not face up to a tax increase?" are also people who will also say, "And for goodness sakes, make sure it is not on cigarettes, it is not on beer, it is not on any of these foolish environmental protective fees, it is not on gasoline, it is not on an oil import fee, it is not on income. Do not touch the rates. Whatever you do, improve America's cost of capital," and so on down the list.

So I think I have some sense of how difficult it is. It is difficult. Real difficult.

Senator DOMENICI. Would the Senator yield?

Senator KERREY. Sure. I am finished, actually.

BUDGET PROCESS REFORM

Senator DOMENICI. Mr. Chairman, I will only take 1 minute.

Let me say to my friend from Nebraska, about 3 years ago I came to a conclusion that I do not know that anybody else agrees with around here, but frankly, I do not believe we can solve the deficit problem of the United States with the current processes that we have. That is because we have made a mistake in that we have said, "President, you send us a budget, but historically and by law, it is nothing but advisory." We all know that.

Up here, we produce budget resolutions and the President is left out of the budget resolutions. He has nothing to say about them and the crisis occurs at the end of the year when you try to implement them or not implement them.

To my way of thinking, that invites the exact situation we are in. You cannot fix this deficit without the President and the Congress together, and I am not trying to take issue with you as to who should tell the American people we have a problem. Frankly, I believe they already know we have a problem.

But I do not argue with you about your definition of that. Frankly, if the President of the United States were to come up with a unilateral statement of how we were to fix it, I guarantee you wherever that is onerous, it would be shot down, and I am not suggesting by my good friend from Nebraska, but it would be shot down within 24 hours.

Because there are difficult decisions. We have a rare opportunity, maybe. If the decisions are made together, we maybe and maybe not, because what the mouseketeers come up with will probably be shot down by the "mouthateers," in any event. [Laughter.]

But it would seem to me that there is a chance. And I do not believe there is a chance otherwise. I could see this President or any President, Republican with both Houses being Democrat, give you the kind of list of things you have to do to fix this economy, and they are all onerous and all difficult, and they will leave the scene within 24 hours because they will be shot down, politically speaking.

I believe we have a real chance, but I think you deserve to be skeptical and the American people do on the issue of whether we will be able to achieve what we end up committing to, and that is why it has been difficult for me to go back to the summit, because I am insisting that we find ways. If we have a \$50 billion package that is supposed to over 4 years yield \$450 billion, or 5 years, I mean, I want to find some ways short of economic changes or huge, cosmic, unexpected events, to be able to say we are going to get there.

I think people like you expect that. I think you do not want a 1-year event, running around saying we have done it. You want the deficit fixed, and then if we want to argue about policy after that or within that, under that umbrella of the fix we can—but I frankly do not believe there is any other way. I can tell you, I take the concern about whether we will get anything done and whether we are serious, I take it from you in a very serious vein. But I do believe the atmosphere is somewhat different in this group, and I think we are going to try very hard to get it done.

Senator KERREY. Just to respond briefly, I am very familiar with the Senator from New Mexico's role in this. He was chairman of the Budget Committee in 1985 and the National Governors' Association supported his attempt to reduce the deficit and this very specific proposal that Congress came up with to solve it.

I am also very familiar with the fact that the President of the United States after he had been reelected—

Mr. DARMAN. Shot it down.

Senator KERREY [continuing]. Took a walk. And I am also very familiar with the fact that President George Bush used that to successfully win the Republican primary in 1988, because Bob Dole had participated in it as well.

Mr. DARMAN. Senator, may I interrupt?

Senator KERREY. No, no.

Mr. DARMAN. Senator—

Senator KERREY. Let me finish.

Mr. DARMAN. He—

WILL THE PRESIDENT GET OUT IN FRONT ON SUMMIT?

Senator KERREY. No; you can comment when I am done; otherwise I will never finish my statement.

I know what happens once you walk to the edge. I am not advocating a tax increase. I am not putting pressure on you to with-

draw from the objective the President has declared, to be No. 1 in the world in math and science. I embrace the proposals on space.

The problem is that when you try to get an agreement on \$60 billion, when you try to get Congress to agree on \$60 billion, you are asking them to put themselves on the line. And I have been on that line before.

I hear the President in a 45-minute meeting with the summiteers and then he turns it over to somebody else. Unless he gets out there on the line with us all the way, it is not going to get done. Mr. Darman, I do not believe it is going to happen.

Senator DECONCINI. Incidentally, for the record, the Vice President voted for that package.

Mr. DARMAN. That is what I was going to note.

Senator DECONCINI. Mr. Darman, would you like to respond to that before we go on?

Mr. DARMAN. I was just going to note that when it came to being counted in the 1985 vote, Vice President Bush cast the deciding vote. It was a tie vote and he cast the deciding vote in favor of that package that you are referring to, and that vote was held against him in the 1988 campaign by Governor Dukakis, who as it turns out had voted with you for the same resolution in 1985 in the Governors' Conference.

Senator DECONCINI. Does the Senator from Nebraska want to continue along this line?

Let me just say, I cannot help but share the Senator from Nebraska's overall views and in particular, his last statement. If this is going to happen, in my judgment, for whatever it may be worth, the President must be a player. I realize that is difficult. You have a summit coming up, and I have the greatest respect for you and I realize you speak for the President, but he has to be there and say, "This is what I am willing to do; this is what I am not willing to do."

Mr. DARMAN. Mr. Chairman, I believe he intends to.

Senator DECONCINI. I am glad to hear that.

Mr. DARMAN. He has said he understands that it is his responsibility not only to lead, if there is a basis for agreement, but also to continue to stay involved in the process. He is not, as Senator Kerrey suggested, saying, "See you later, tell me when you guys have a solution." He is saying that he intends, he said explicitly that he intends to stay engaged.

Senator DECONCINI. I think the concern arises, because in the budget agreement that was agreed to last year, there was certainly the feeling up here that the President did not stay involved in the summit.

Mr. DARMAN. Right, but we all learned a lot.

Senator DECONCINI. And maybe that was the lesson.

ADMINISTRATION POLICY ON PAY ABSORPTION

Mr. Darman, I know you have to leave at 12:30. Let me go into something a little less, perhaps, significant a problem than the deficit. I am very concerned about the administration's policy for fiscal year 1991 on pay absorptions. For fiscal year 1991, the pay raise means that each Federal agency would absorb 50 percent of

the cost of the 3.5 percent COLA, as well as the increases in Senior Executive and Executive Service pay raises. Am I correct that that is the policy in the budget that was submitted by the administration?

Mr. DARMAN. It is the general policy, subject to exception, and there are many exceptions in the budget including OMB itself.

Senator DeCONCINI. Can you tell us how you arrived at the decision to require agencies to absorb 50 percent of the 1991 pay raise and how did you determine which agencies would be given exceptions? You took the sting out of the question, as lawyers say, by excepting OMB.

Mr. DARMAN. Well, the way you arrive at a number like that is inherently somewhat arbitrary. In fact, the whole approach is inherently somewhat arbitrary at any level.

In the past, as you know, we have at times recommended 75 percent or full absorption, and so I moved it in the direction that was not as stringent as in the past, but it is not as accommodating as I know some would like. It is sort of right down the middle, 50 percent.

I will grant you, there is no way to defend any particular number as being correct for the general rule. I thought 50 was a reasonable balance between the two competing interests.

PAY ABSORPTION FOR OMB

Senator DeCONCINI. That is fair enough. Let me ask you, how did you arrive at OMB—

Mr. DARMAN. Not just OMB, but several others.

Senator DeCONCINI. Well OMB, and several others then.

Mr. DARMAN. What we did was, we said—

Senator DeCONCINI. Let us talk about OMB. The only reduction I think that you had to take is the 1990 Gramm-Rudman-Hollings sequester.

Mr. DARMAN. Right, of course. You are free to, and not only free to, you will determine the actual number. What we have done is written down what we think is right.

Well, you will recall last year we requested a modest increase and you very generously provided it, and I believe the reason you did so was rooted in a correct premise that we needed more capacity for the increasing demands on the agency and that we, especially in the management area, which had atrophied in the previous decade, that with this enormous range of problems, not just at HUD but throughout the Government, that were at that stage when we discussed it last year, just beginning to be exposed in something that would suggest their fullness but far beyond HUD, that it was very important to have a management oversight capacity that was substantially stronger than it had been.

It seemed to me, since it is a multiyear plan to strengthen management, to be foolish to start on the path to increase it in year 1 and then to just turn around and reverse it in year 2 before it was really even born and institutionalized. That was the thinking.

PAY ABSORPTION IMPACT ON CUSTOMS

Senator DeCONCINI. Yes; and I can appreciate that, but Congress also fully funded a number of programs that, because of your recommendation, are not being fully implemented in fiscal year 1990.

For example, the Congress provided the President with the full requested amount of \$28 million in fiscal year 1990 for the implementation of the containerized cargo initiative for the Customs Service. Due to pay absorption and other increases, Customs is only able to provide \$3 million and 59 canine teams to implement this initiative.

Does that same problem not exist at OMB as well as at Customs? I might add, you know, the record should show that in fiscal year 1990, both the House and the Senate did absorb 100 percent of the cost of the 1990 COLA for its employees and is proposing to absorb 50 percent of the cost in fiscal year 1991. I do not think anybody is being excused from that in the legislative bodies.

How can you decide, for instance, that the containerized cargo initiative should be put on hold by not putting enough money in the Customs budget for pay absorption, forcing them to cut out one of the real tools in the war on drugs?

Mr. DARMAN. Senator, let me say that in general, we made it known to all the agencies that if they wished to appeal the absorption rule, they could make a case, and we reviewed a number of cases and tried to decide them on the merits. There is no way you can be sure that you are right across the board.

In the case of this particular one, perhaps my figures are not correct or perhaps we are talking about two different things. You are right that there is a cut relative to what you originally appropriated, but I believe it is the case for cargo inspection that relative to the sequester level, which is the actual 1990 appropriated level, the staffing remains the same in our proposal as it was last year.

Are our numbers at odds?

Senator DeCONCINI. Well, my understanding is that they could not fully implement the program in 1990, according to Customs testimony, because they had to absorb the pay raise.

Mr. DARMAN. Right.

Senator DeCONCINI. And so is it the chicken or the egg? The point is that if this is an important part of the war on drugs, the fact that they had to absorb the pay raise because you told them that they had to contradicts your argument. I understand Treasury did appeal this; I am told more than once—

Mr. DARMAN. Yes.

Senator DeCONCINI. My quarrel with you is, if the war on drugs is to be a priority, why do you not exempt Customs from the absorption policy, for that matter, the other agencies that are really a part of the national drug strategy? That is my concern. If you are exempting OMB, well and good, based on what you said. Why not exempt the agencies involved in the war on drugs?

Mr. DARMAN. Could I make a couple of comments, Senator?

Senator DeCONCINI. Sure.

Mr. DARMAN. Janet Hale informs me that—and she is responsible for Treasury's oversight—that there never was a final appeal from Treasury on this, but—

Senator DeCONCINI. I may be wrong. Excuse me for interrupting. That is what they told us, but I stand corrected if your record shows they never followed up.

Mr. DARMAN. Maybe both are right and it did not get to Janet. It certainly did not get to me.

But in any case, let me just suggest this. I do not want to apply a double standard, and I would like to review this one on the merits with you. If you think we are applying an unfair standard in this case, the same unfair standard should be applied to us.

Senator DeCONCINI. I cannot argue with that.

Mr. DARMAN. OK.

Senator DeCONCINI. Let me ask you to also look at a couple of other ones.

PAY ABSORPTION RESULTS IN REDUCED DRUG PROGRAM STAFFING

If the President's budget were implemented with these levels of absorption, agencies like Customs would lose 757 positions. The Bureau of Alcohol, Tobacco and Firearms would lose 185 positions, and the Border Patrol would lose over 200 positions.

I wish you would look at those agencies also. They are the front line; they are part of the national drug strategy that Mr. Bennett has put together, and it seems to me certainly a double standard. I am not going to dispute your need not to absorb pay. You make an argument that the demands on your agency are great, and I participate with everybody else in putting those demands on you. To respond to those demands, you need people.

But it seems to me truly a double standard when these law enforcement agencies that are equally dedicated and are a part of the strategy for the drug program but are not given the same consideration.

Mr. DARMAN. Could I—

Senator DeCONCINI. It seems to be a double standard when you indicate that it is an arbitrary decision. It seems to me that you might be a little more generous to some of these drug enforcement agencies.

Mr. DARMAN. Could I just give you a preliminary set of comments but then follow up with you and your staff on this?

Senator DeCONCINI. Yes.

Mr. DARMAN. What we tried to do was discriminate between the drug-related enforcement activities in the agencies you mentioned and the nondrug. That itself is somewhat arbitrary, I admit. For the ones that we identified as drug related, we tried to fully fund and, in many cases, increase the allocation of resources. That put a squeeze on the remainder and, with respect to the remainder, we have to distinguish, I think, between the cases where we have also invested in automation, just as in the case of OMB this year, we are not asking for staff increase, what we would think is a right investment to make us more productive is to increase systems.

We did the same thing over the years in Customs, and some of the benefit of that investment we think is accruing to Customs now, and so there is greater productivity for any given level of work force, and I hope as we look at this, we will not be arbitrary

in saying that the number has to remain constant or have to increase it at a fixed rate.

Senator DeCONCINI. You can play with those numbers, if you take DEA; they had to absorb \$13,826,000. I suppose you could find a little bit of their effort that was not purely drug related. Certainly, the FBI, who had to absorb \$41 million, almost \$42 million, some of that is not drug related. When you are in these major law enforcement agencies that are on the front line, for instance, the Border Patrol is part of INS, if you make INS take that absorption in order to allow the Border Patrol to maintain their duties, it is pretty darned hard and difficult for those agency heads, in my opinion, to operate. You are saying to them that they have to say, I am going to cut the baby in half here. It just seems to me you are only talking about maybe six agencies that would fall into the same category that OMB falls into.

Mr. DARMAN. They are very personnel intensive in some cases—

Senator DeCONCINI. Exactly.

Mr. DARMAN. And so it gets hit hard. I understand that.

HELPING AGENCIES COVER CERTAIN OVERTIME COSTS

We did make one mistake—I am sure we made many, but this one I would be happy to acknowledge—in the way in which I made the original decision on the treatment of AUO, the overtime, and we tried to help remedy that problem by getting the drug czar to work with these agencies to change the allocation of the funds in his—what do you call that fund—the forfeiture fund.

Senator DeCONCINI. We initiated that.

Mr. DARMAN. That is right. That is right.

Senator DeCONCINI. I am glad you—

Mr. DARMAN. I saw your letter on that and I was very delighted when I saw it. At that stage, we also favored that, but the drug czar did not, and your intervention was very helpful.

Senator DeCONCINI. That helps. It does not restore all the reductions, but it puts us on the right road and I guess maybe, since we are on that road—

Mr. DARMAN. We are on that road.

Senator DeCONCINI. And you concur with that?

Mr. DARMAN. We concur.

Senator DeCONCINI. Maybe there should be some adjustment in OMB to bring these few agencies, the FBI, INS, OCDETF, Customs, BATF, Secret Service, and IRS, we are only talking about seven agencies, really, to bring them up to speed, now that—

Mr. DARMAN. Maybe we should get some of that, too.

Senator DeCONCINI. Well, I think it is a fair enough trade. As small as you are, your absorption is only \$1 million, so you are not getting a fair trade there. If you did restore all these agencies, you would restore \$100 million. The drug czar is going to take part of that, but I would like you to look at that. I am very serious about it.

We had Customs Commissioner Hallett and Director Higgins testify before the committee earlier in the year. Both stated that they could not take all the fiscal year 1991 cuts from nondrug-related

programs, without significantly undermining other important programs, like Customs' commercial operations and BATF gun export control investigations. So, without some infusion here, besides the drug czar's money, I do not see how we are going to make it.

Mr. DARMAN. Well, Senator, I know you are an expert on this and I am not, but—

Senator DECONCINI. Well, I am not sure I am an expert, but I—

Mr. DARMAN. I would like to just explore it with you in good-faith and share with you the basis of our own analysis, and if we are not right, we are not right.

Senator DECONCINI. Fair enough. I have found you to be straightforward, Mr. Darman. Your answers to the question of how OMB was exempted from mandatory absorption, indicating that it is arbitrary and it was arbitrarily given to OMB, and not to others, because of your need and what have you, is a good place to start. I think we have some basis there to move on.

Senator DOMENICI. Mr. Chairman?

Senator DECONCINI. Yes, sir?

FORFEITURE FUND FINANCING OF CERTAIN OVERTIME COSTS

Senator DOMENICI. Might I just see if you agree with this, however: When we spoke of the forfeiture fund, I think we had reached at least some kind of an understanding here that we did not want to put pressure on the forfeiture activities by using the forfeiture fund on a regular basis for line-item type expenditures.

Mr. Darman, I do not know that you might have answered to the contrary or that the chairman might have interpreted to the contrary, but I think we have agreed that we do not want that forfeiture fund to have pressure on it to go out and grow, to take care of ongoing operations of government like the ones we are talking about here.

Now, if you run into an emergency, we have said use it, but we do not have any disagreement on that, do we?

Mr. DARMAN. No; we do not, Senator, although I have a point of view which I think is not so widely shared, which is that I am not sure we need that fund at all.

Senator DOMENICI. Well, I was not such an advocate of it, and the one limitation that comes to me is you surely do not want to invite the line-item agencies that are out there trying to engage in forfeiture to be heavily relying upon that forfeiture fund for their daily sustenance, because it is an increase—

Mr. DARMAN. You do not also want to create an internal bank—

Senator DOMENICI. Correct. It is an invitation, too.

Mr. DARMAN. You know, it gets away from the ordinary appropriations process, if you develop a big fund and you have got the freedom to just dole that out any way you want. So, there are a variety of reasons that I think we ought, over time, to make sure that does not grow into something that was not intended.

Senator DECONCINI. I do not mean to belabor it, but \$100 million is what we are talking about. The drug czar has come up with a good chunk of it and I hope we can seriously talk about OMB

agreeing to come up with a chunk of it some place else. I do not know where that some place else is, other than defense, but wherever it may be, that is what I hope you do.

I know you have to leave. I appreciate you staying and I am sorry I was late and about the problems of scheduling this hearing. I appreciate the efforts of your staff and the time constraints we have had to deal with here.

I would ask that Mr. Diefenderfer could stay maybe 10 more minutes.

Mr. DIEFENDERFER. Sure, sir, as long as you like.

Senator DeCONCINI. You don't mind?

Mr. DIEFENDERFER. No.

Senator DeCONCINI. Thank you, Mr. Darman.

OMB DIRECTOR RECUSED ON CERTAIN FEDERAL BUILDING ACQUISITIONS

Mr. DARMAN. Thank you very much, Mr. Chairman. Could I just explain for the record the reason for my departure. It is my understanding that, apart from your courtesy in letting me depart, that this subject that you are about to deal with, having to do with the way in which we finance a host of buildings, has created a complication for me in that I used to be with Shearson Lehman and I have recused myself from matters related to Shearson.

What has happened is that Shearson has come in as a potential financier and, indeed, inventor of some of the financing ideas for particular buildings. Initially, I recused myself from just those buildings. But what has turned out to be the practical problem is, when I tried to get into the general policy or some other building, all of a sudden it turns out Shearson is sort of working on that one.

Senator DeCONCINI. I understand.

Mr. DARMAN. What turned out to be the easiest thing to do is just get out of it altogether and Bill Diefenderfer is really our lead person and has the full delegated responsibility in the area.

Senator DOMENICI. Mr. Chairman, I cannot stay. May I submit my questions?

Senator DeCONCINI. Indeed, you may.

IMPACT OF PAY ABSORPTION ON TREASURY PROGRAMS

Senator DOMENICI. Mr. Darman, with your permission, I would suggest that there is one thing that really kind of irks me about your budget. You know, you put in pay absorption, but there are also new initiatives and I think we do not have quite the right understanding on absorptions being applied to the ongoing operations, while we are asked to fund new initiatives.

Frankly, when I see full-time equivalents being cut back under the absorption mechanism in Customs and the other agencies, I get kind of leery about a request that suggests new initiatives be funded within that same budget. I do not want to take much time on it, but it does kind of seem to me to be not the very best approach, especially for these line agencies that have a pretty good history and are trying desperately to get better and professionalize and do a job, funding new initiatives and making them absorb and lose more people does not make sense.

Senator DeCONCINI. If the Senator would yield, sometimes the new initiatives just are not implemented.

Senator DOMENICI. Exactly.

The other thing is we take responsibility. We have been concerned. We produce an appropriations bill and then we do not fund the pay or the overtime or the mandatories that are in it, and then we get angry, because in the absorption process we have to cut back full-time employees and we leave that to you all.

Senator DeCONCINI. If the Senator would yield, I do not disagree with that. We are part of the problem, I think, and you are too, Mr. Darman, because when the budget comes you do not set aside the money either. We are both trying to cover ourselves and I am willing to uncover on a couple of agencies that deal with drugs and I am trying to get you to do the same.

Mr. DARMAN. We need a bit better approach and we are working on that. I hope by next year, we will be a little more rational.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator DeCONCINI. Thank you, Mr. Darman.

Mr. DARMAN. Thank you.

SELECTION PROCESS FOR 21 NEW FEDERAL BUILDINGS

Senator DeCONCINI. Mr. Diefenderfer, let me move on to the subject of GSA and building financing. Let me just go through a little background here for the record; you probably already know all of this.

On March 29, 1990, the administration submitted a budget amendment, requesting new budget authority for \$2.414 billion for the direct construction of 11 Federal buildings, which were included in an OMB-GSA task force agreement reached on Federal office space requirements for the period of 1991 through 1993. That amendment included \$1.365 million for fiscal year 1991 construction, advance appropriations of \$730 million for fiscal year 1992 projects, and advance appropriations of \$317.6 million for fiscal year 1993. The original GSA budget included \$250.6 million in obligational authority for the construction of the remaining 10 Federal buildings included in the task force recommendations.

I am not arguing with the need for these buildings. Federal office space requirements are something this subcommittee cannot ignore and we address them all the time. What I am concerned about, however, is that OMB has proposed a change in the scoring for building construction and leases which may jeopardize the Federal Government's ability to acquire suitable office space, which we all agree must be provided. I want to spend a little time on the scoring issue and determine exactly what the administration's position is with respect to Federal buildings, because it seems to be changing.

First, let me ask you a few questions. How were the 21 projects selected for Federal construction during the period 1991 through 1993?

Mr. DIEFENDERFER. It was done in a joint effort, as you mentioned, between GSA and OMB. There were a number of criteria. The two criteria that are the most pronounced were that the ownership will provide economic advantages over leasing, because of the longevity requirement. That means that we are going to need

this building for 20 or 30 years. For example, it is DOT, they are going to be around, versus some commission that will be around for 2 or 3 years. You would not build a building for them. You would lease for them and you would build for the others. Second, the construction or acquisition must be cost-effective alternatives in relation to projected real estate conditions in any particular area.

The example there would be, if you go into a market that is glutted with empty space, you may be able to get a better deal purchasing an existing building, rather than building a building, or perhaps leasing in some instances, if you have a lot of slack in that particular market.

STATUS OF EPA BUILDING

Senator DeCONCINI. Let me ask you about the EPA building which is included in the administration budget amendment for fiscal year 1992 construction. Since the project was authorized as a lease-purchase building in fiscal year 1990, GSA told the committee that this project was included at a level of \$300 million, in order to place a cap on the total cost for that building. Is that your understanding, and what is the status of negotiations with EPA—

Mr. Diefenderfer. And GSA.

Senator DeCONCINI. And GSA?

Mr. Diefenderfer. I had EPA in my office about, well, I guess it was about 2 or 3 weeks ago. They were complaining that they were not receiving the proper attention that they deserved on the question of whether it should be a \$300 million building or a \$320 million building. There were some differences over the quality of the air-conditioning system. EPA maintained that they needed a system that is superior to the normal air-conditioning systems you would find in a building, and EPA also maintained they need special flooring, a raised flooring to run computer networks.

Senator DeCONCINI. I think you are missing my question. We authorized them to construct a building without a cap, and now you are forcing a cap on them. We did not authorize \$300 million.

Mr. Diefenderfer. Appropriated it, sir?

Senator DeCONCINI. Yes; we included language without citing an appropriation limit and now you have come back and requested \$300 million.

Mr. Diefenderfer. The \$300 million is the number that we thought was necessary to build the building.

Senator DeCONCINI. Now that will be scored, from what you are saying?

Mr. Diefenderfer. We have to score something, sure. Yes, sir.

Senator DeCONCINI. It throws these buildings, I think, in jeopardy.

Mr. Diefenderfer. Well, this is a question, then, that is much broader than the EPA building.

Senator DeCONCINI. That is true.

Mr. Diefenderfer. This is a question—

Senator DeCONCINI. I just used it as an example—

Mr. Diefenderfer. OK.

SCORING FEDERAL BUILDING CONSTRUCTION

Senator DeCONCINI. But you are absolutely right. It is a question of how and why we are scoring differently from the way we were scoring last year and why can we not continue as we have in the past, at least on the existing authorizations where the commitments have been made, where we have already gone down the road.

Now, if you want to change it for prospective buildings that we have not done anything with, that is something that is a little different. Perhaps, there I might argue with you, but I cannot argue nearly as strongly as I can when we have already approved these buildings through previous appropriations acts.

Mr. Diefenderfer. We will not affect just the EPA building. There are I think seven other buildings that——

Senator DeCONCINI. Thirteen altogether.

Mr. Diefenderfer. Thirteen altogether. Yes, I guess there are some Customs buildings that I have lumped into one group.

Senator DeCONCINI. Yes.

Mr. Diefenderfer. Why we took our position was that, under the lease-purchase structure, if it was as fully guaranteed, in our judgment, a fully guaranteed payment over a period of time, that you should strive to achieve a number of objectives.

First, the BA, since you are going to have to pay it, you owe these money over 30 years, all BA should be declared up-front. In the old scoring structure, it was not, so you had a contingent liability that you were not acknowledging for the future, and we thought it was important to change that.

Second, the old scoring structure put a premium on lease-purchases over purchases. That was because of the 302(b) situation and the different outlay stream, so that if you look at the cost of lease-purchasing versus the cost of purchasing, it is cheaper to purchase than it is to lease-purchase, and we thought we should go with the least cost financing.

Now, in the past, OMB has never been willing to put in its budget requests money for buildings and we have changed that. In the past, OMB has not been willing to go to the Appropriations Committees or the Budget Committees and argue that a sufficient budget authority be allocated to address these problems. We have changed that. I think you have seen in the Senate Budget Committee report and the House Budget Committee report, they have indicated these buildings should be funded and they have allocated resources to that.

I am scheduled to meet with the full committee staff of both Appropriations Committees, to say that the subcommittee should give a 302(b) allocation that reflects the——

Senator DeCONCINI. I guess to get to my question, why could you not withhold changing the scoring for those buildings that were already authorized? What it is going to do, I think, is to make it impossible to fund the buildings and if that occurs, then we are going to end up with short-term leases, which are even more expensive than long-term leases, from what I understand from GSA——

Mr. Diefenderfer. Yes; it is.

Senator DeCONCINI. And that is what is going to happen. So, by deciding to make this change today, it seems to me you are causing a greater problem and greater expense than if you said, from now on, folks, future buildings are going to be done this way, but we are not going to make this retroactive, because we did not address it soon enough. No criticism intended, that you did not address it soon enough.

Mr. Diefenderfer. I misunderstood the question you asked. It is my understanding that on the 13 buildings, you have already awarded the BA—

Senator DeCONCINI. That is right.

Mr. Diefenderfer. And there will be no change in that. You do not have to go back and do anything as respects those 13 buildings. You do not have to appropriate, you do not have to authorize. If you do nothing—

Senator DeCONCINI. You are willing to stand by your letter?

Mr. Diefenderfer. Oh, yes, sir; absolutely.

Senator DeCONCINI. That is really going to be my question.

Mr. Diefenderfer. Absolutely. Those buildings are going to be built, unless you or the House together decide not to build them.

Senator DeCONCINI. OK.

Mr. Diefenderfer. Where the bind is going to be—

Senator DeCONCINI. Including EPA?

Mr. Diefenderfer. Yes; the answer is yes. The reason I have a question is, on the list I have which they gave me for the EPA, it says it was authorized, but it does not say it was appropriated. But if it is among the buildings that were authorized and appropriated, there is no change.

Senator DeCONCINI. So, there is no question, you are going to stand by the previous letter.

Mr. Diefenderfer. Absolutely.

Senator DeCONCINI. As to the future, in your judgment, you feel that you have got to do what you plan to do now on these buildings, because of long-term costs. Now, if that puts the Government or the Appropriations Committee in the position where we will tie the hands of GSA, because of 302(b) allocations or lack thereof, where they get caught with no alternative but to let short-term leases, is OMB going to attempt to address that and move funds over for these buildings, because short-term leases, I am told, are substantially more expensive—

Mr. Diefenderfer. Absolutely.

DOES FINANCING MECHANISM CREATE BIAS TOWARD SHORT-TERM LEASES?

Senator DeCONCINI. And that is what GSA says would have to happen. If we were implementing this on the 13 buildings that we have resolved—and thank you for your commitment—that is what we would have to do. Now, let us say, we have got 13 new buildings that we are going to have to construct because they need the space. For argument's sake, let us say, it is undisputed that we need the space. How are you going to address this or are you going to address what we may end up doing, which is forcing them to enter into short-term leases, if we do not get the budget authority?

Mr. DIEFENDERFER. First of all, we are going to argue for the budget authority and we have done that. As I said, we have done two things that OMB has not done in the past. We put it in our budget, we have gone to the Budget Committees and we have argued that you should have the necessary budget authority and they have acknowledged that.

We are about to go to the chairmen of the respective Appropriations Committees, saying they ought to follow through in the 302(b)'s. Now, the further assumption that you make is, well, it will not occur, and if we do not get this 302(b) allocation, we will be forced to short-term leases.

Senator DeCONCINI. So, you are going to carry that message as forcefully as you can to the Appropriations Committees, to the chairmen of the full committees, regarding the 302(b) allocations, based on your argument?

Mr. DIEFENDERFER. Absolutely.

Senator DeCONCINI. OK.

Mr. DIEFENDERFER. And I think it is a—

Senator DeCONCINI. I thank you for that, because I am going to do that, also. But, quite frankly, you are changing the rules and, although you are saying you are not going to upset the present situation, we certainly need to understand the rules all the way from the top of the committee on down.

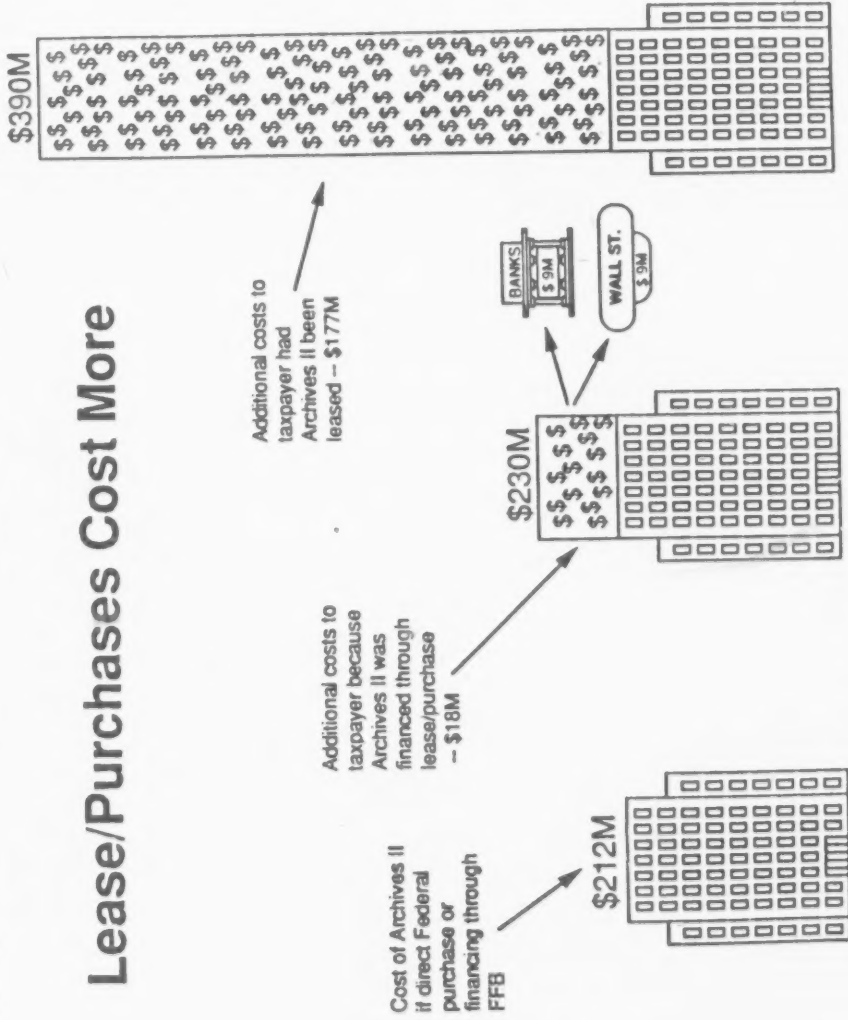
DIRECT PURCHASE IS MOST COST EFFECTIVE

Mr. DIEFENDERFER. Yes, sir; I would make one other point, that is I think when everybody understands what is happening here, I cannot believe that the Appropriations Committees chairmen will not give you the budget authority necessary versus going with short-term leases or lease-purchases.

I had this drawn up and it is not meant to address particularly the Archives Building in itself, but it is just an example, it is a little chart that shows you the relative costs between purchasing, lease-purchasing and short-term leases. I would direct your attention to the middle building, which is the lease-purchase. It is about \$18 million more expensive: \$9 million goes to underwriters on Wall Street, \$9 million goes to greater interest costs. When you start to magnify this by more expensive buildings and 20, 30, 40, or 50 buildings, this is serious money. I think these arguments, I believe, will win the day. They have won the day at OMB, they won the day with the Budget Committees, and I hope it will win the day with the full committee allocations.

[The chart follows:]

Lease/Purchases Cost More



FINANCING THROUGH FEDERAL FINANCING BANK

Senator DeCONCINI. Even if this is financed through the Federal Financing Bank, it works out this way?

Mr. Diefenderfer. No; if it is financed through the Federal Financing Bank, we can avoid the increased interest costs, except for one-eighth of 1 percent, about I think 12 basis points, and the underwriting—

Senator DeCONCINI. Is that a realistic alternative or not?

Mr. Diefenderfer. Yes, sir; I have sent the letter, I believe, to you, Mr. Moynihan, and others concerned with this matter, and we went to the Federal Financing Bank and they have agreed that they can finance each and every one of these buildings save one, because the law does not allow them to finance the activities of the legislative branch, and we have recommended that that should be changed in legislation.

Senator DeCONCINI. Why is that not the policy of OMB? Is that not a realistic approach?

Mr. Diefenderfer. That is where we are driving, sir.

Senator DeCONCINI. That is where you are headed.

Mr. Diefenderfer. Yes; because—

Senator DeCONCINI. OK.

Mr. Diefenderfer. I have told you, from our viewpoint there were three problems: The first problem was that the BA was not shown up-front, this does it; second, using private financing would cause us to pay a premium above Federal rates, going to FFB eliminates that.

Senator DeCONCINI. And that is where we are going to finance this—

Mr. Diefenderfer. Yes.

Senator DeCONCINI. To bring those costs down.

Mr. Diefenderfer. Yes, sir.

Senator DeCONCINI. So it does not amount to so much.

Mr. Diefenderfer. Yes, sir.

SUBMITTED QUESTIONS

Senator DeCONCINI. OK. I have some questions here on the scoring of leases and lease-purchases. I do not really understand how you arrived at this policy, and I am going to submit them to you to answer for the record.

Mr. Diefenderfer. I would be glad to address them, sir.

Senator DeCONCINI. Maybe I need to sit down and talk with you about it, to get a clear picture of what you are doing. I have run out of time.

Mr. Diefenderfer. I welcome the opportunity.

Senator DeCONCINI. Thank you very much.

Mr. Diefenderfer. Thank you.

Senator DeCONCINI. I appreciate you staying overtime.

[The following questions were not asked at the hearing, but were submitted to OMB for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

PAY ABSORPTIONS

Sen. DeConcini: In directing the pay absorption in fiscal year 1991, did OMB give consideration to the programmatic reductions which most agencies will have to implement in order to absorb 50 percent of the costs of the 1991 pay raises? If so, What were your findings?

Response: Regardless of the overall fiscal situation, agencies must make every effort to improve employee productivity, increase program efficiency, and generally make better use of budgetary resources. Such efforts, of course, are especially key in our current fiscal situation. In determining that 50 percent of the January 1991 pay raise should be absorbed, OMB assumed that agencies, other than relatively small ones, can take a number of actions to offset increased pay costs. For example, agencies could review the salary levels of vacated jobs and take action to reduce the salaries of newly hired personnel. In addition, agencies could hold down expenditures of discretionary items such as travel, equipment, and other services. Through careful management and streamlining, agencies should be able to avoid reductions that will affect primary missions and programs.

Sen. DeConcini: The OMB budget justification for fiscal year 1991 states that "in order to absorb 50 percent of the pay increases for senior executives and general schedule employees, OMB will have to reduce staffing levels by approximately 16 FTE's. The justification goes on to state that your 1991 budget request includes funding for 16 FTE's.

So, in essence, OMB does not propose to absorb any of the costs associated with the 1991 pay raises, because you are requesting funding for the 16 FTE's you say you will lose due to the pay absorptions. Is this correct?

Response: Yes. That is correct.

Sen. DeConcini: I am also concerned about the inconsistent application on Administration policy on pay with respect to other agencies. For example, the National Archives, which I consider to be a relatively small agency, is being told to absorb 100 percent of the costs of the 1991 pay raise, due to a mistake in the budget preparation process. This amounts to approximately \$1.5 million. Can you explain to the Committee how this happened and why this agency is being singled out to absorb 100 percent of the costs of the 1991 pay raise?

The Archives testified before the Subcommittee on April 5, 1990. At that time, they stated they had prepared and sent a budget amendment to OMB totalling \$857,000, an amount equal to 50 percent of the costs of the 1991 pay raises. Have you reviewed their budget amendment request, and if so, can the Committee expect to receive an amendment to the Archives 1991 budget? If not, why not?

Response:

On June 29, 1990, a budget amendment was presented to the Hill which included funding for 50% of the pay increase for the National Archives.

Sen. DeConcini:

The fiscal year 1991 budget for the Executive Residence at the White House contains an increase of \$174,000 for the annualization of the 1990 pay raise. This amount, it appears, is the cost for a full fiscal year for the 1990 COLA. The Residence tells me that the amount for one-quarter of the fiscal year, which every other agency received, totals \$44,000. Why did OMB approve \$174,000 for the 1990 pay raise in fiscal year 1991 for the Executive Residence when the amount for one-quarter of the fiscal year only totals \$44,000?

It concerns me that the Executive Residence is being given full funding for an entire calendar year for the 1990 COLA when agencies like the National Archives are given no funding for the 1991 COLA. What rationale are you using to explain this disparate treatment?

Response:

The fiscal year 1991 budget for the Executive Residence contains an increase of \$178,000 to annualize the 1990 pay raise. As noted, this amount represents full restoration in 1991 of the cost of the 1990 pay raise.

While most agency 1991 budget requests include additional funding for just one quarter of the 1990 pay raise costs, some agency budgets include more or less than this amount. The Residence is one of several agencies that were authorized to budget in 1991 for the full cost of the 1990 pay raise. Decisions on 1990 pay raise funding were made on a case-by-case basis, taking into consideration program priorities, fiscal constraints and the ability of each agency to sustain another round of pay absorptions.

PAY REFORM INITIATIVES

Sen. DeConcini:

The President's budget contains certain Pay Reform Initiatives designed to make it a little easier for Federal agencies to recruit and retain quality federal employees. The budget proposes locality pay differentials of up to 8 percent for three geographic areas:

New York, Los Angeles, and San Francisco. It also proposes to increase GS-5 and GS-7 entry level pay scales for college graduates by 5 percent; extend to all agencies the authority to hire individuals with unique or special qualifications at higher than entry grade level; and authorizes the payment of bonuses for recruiting, retaining or relocating employees with critical skills. While I believe these initiatives are a start, I am concerned that there is no additional money contained in the budget for the agencies to cover the costs of implementing these initiatives. If the answer is to simply require the agencies to absorb these additional costs by cutting into base operations and robbing Peter to pay Paul, I think this is a mistake. We are already seeing the affects of cumulative absorptions on the base operations of the agencies. If you give the agencies new authorities without giving them the additional funds to implement the pay incentives, you just may be setting up a competitive system within the Government where those agencies having funds will implement recruitment benefits and those who have just as severe a recruitment problem but no money, won't be able to implement the authorizations. When Constance Newman appeared before our Subcommittee she said that she had asked for full funding to implement the President's initiatives but because of the desperate need to do something on pay reform, she was willing to take authorizations without additional funding. Have you done a budgetary assessment of the pay reform proposals contained in the President's budget and if so, what are the costs to implement them?

Response:

The estimated government-wide cost of the interim pay reform measures included in the President's budget is \$328 million for FY 1991, which would be absorbed by the agencies. This cost estimate assumes \$240 million for cost differentials in New York, Los Angeles, and San Francisco, \$46 million for higher entry level salaries for college graduates, and \$42 million for recruitment and retention bonuses.

Sen. DeConcini:

What about the cost of the Administration's new pay reform legislation, do you know what the total costs of the legislation is?

How much of these costs are in the President's fiscal year 1991 budget?

Response:

Beyond the \$328 million cost in FY 1991 of the initial reforms, we estimate that the total cost of the Administration's pay reform legislation will be \$3.6 billion between FY 1992 and FY 1995. During our Mid-session Review of the budget, we established a government-wide pay allowance that in the aggregate would provide net funding of \$1.8

billion, with the other \$1.8 billion to be offset in other, non-pay accounts.

- Sen. DeConcini: Will additional funding be contained in each agency budget to implement the new pay reform proposals?
- Response: Pending the outcome of the Administration's pay reform legislation, the additional funding for pay reform has been set aside in a government-wide allowance.
- Sen. DeConcini: Don't you agree that by granting the authorization without providing the additional funding the Government may be establishing a recruiting system which benefits one agency over another?
- Response: As described above, additional funding has been provided in a government-wide allowance.
- Sen. DeConcini: Don't you agree that the cumulative impact of absorptions on the agencies will require them to continue to take funds from program initiatives and if so, aren't you essentially saying that the initiatives contained in the President's budget do not need to be fully funded?
- Response: The cost of the initiatives in the President's budget (\$328 million government-wide in FY 1991) is a marginal factor in overall pay costs and can be absorbed by the agencies without affecting primary missions and programs. Beyond FY 1991, we have established a government-wide allowance for the increased pay costs associated with pay reform initiatives. The aggregate net allowance for FY 1992 to FY 1995 is \$1.8 billion, which would fund one-half of the estimated \$3.6 billion cost of pay reform. The other half of the increased costs would be offset in other, non-pay accounts.

FEDERAL LAW ENFORCEMENT PAY REFORM ACT

- Sen. DeConcini: On March 9th, I introduced the Federal Law Enforcement Pay Reform Act of 1990. The legislation embodies the major recommendations made by the National Advisory Commission on Law Enforcement. The Commission, which conducted a year-long study of pay and compensation for Federal law enforcement officers, included as its members Attorney General Thornburgh, FBI Director William Sessions, and OPM Director Constance Newman.
- In the past, Federal Law Enforcement agencies were successful in attracting excellent candidates for agent and officer positions based on the salaries and other benefits they offered. Today, however, over fifty percent of Federal law enforcement officers are located in cities where starting pay for local

officers is \$5,000 to \$9,000 above their own pay levels.

The Administration has proposed a pay reform package which would cover all Federal Government employees. However, the package does not include any of the recommendations of the National Advisory Commission's study.

When Attorney General Thornburgh appeared before the Judiciary Committee on April 3rd, he told me he would support my legislation. Do I have your support for this bill which comes to the rescue of Federal law enforcement officers?

Have you discussed the Federal law enforcement pay issue with President Bush and is he willing to support and fund a pay and compensation increase for Federal law enforcement officers in fiscal year 1991?

In regards to funding for the legislation, does the Administration intend to include new funds in the budget of each agency affected, or will it be treated like the increased AVO benefits where the affected agencies will be forced to cut personnel and other services to fund the increased costs?

Response:

OMB shares your concern about pay issues for law enforcement and related personnel. The Administration's proposed "Federal Pay Reform Act of 1990" contains similar provisions to those contained in S. 2250. Principal among these are enhanced pay for entry level positions, locality pay increases, and retention bonuses. The Administration is concerned that the costs of implementing S. 2250 are approximately \$411 million in 1991, over \$200 million more than was estimated in the National Advisory Commission on Law Enforcement (NACLE) report. In the second year of implementation, the costs are expected to rise to over \$525 million. During a period of tight budgetary resources, we need to carefully examine the benefits of such costly and sweeping legislation. Clearly the President's FY 1991 budget request does not anticipate these costs nor would absorptions be a desirable means of financing such proposals.

S. 2250 goes beyond the NACLE report, increasing the cost of the proposal. In particular, extending the geographical pay provisions to non law enforcement personnel would add significantly to the costs.

Likewise, the NACLE report failed to estimate the related benefit costs from its pay proposals. As Constance Newman notes in her letter of March 8, 1990 in the report: "...I would urge the Congress to use the Commission's report not as a blueprint for immediate changes, but as an important background document against which the

Administration's more comprehensive and cost-effective proposals for solving the problems of the Federal pay system -- including the problems of law enforcement personnel -- can be judged."

SPECIAL OCCUPATIONAL TAXES

Sen. DeConcini: I understand that the administration is proposing to eliminate the special occupational tax currently placed on retail businesses selling liquor, beer, and wine and to transfer the tax instead to wholesalers and producers of beer, wine and liquor. This new tax on wholesalers, which I am told OMB has estimated to be somewhere in the range of \$130 to \$150 million a year, is currently collected from over 600,000 retail businesses. Because there are significantly less wholesalers and distributors of beer, wine and liquor products nationwide, it seems to me that the impact of this proposed tax change will have a major financial impact on the wholesale businesses. Can you tell us what generated this proposed tax change and why Treasury can't continue the current method of collecting the special occupational tax from retailers?

Doesn't this tax proposal contradict the President's pledge that there will be no new taxes?

Response: About 95% of the Special Occupational Tax (SOT) is collected from retailers. Because the retail compliance rate is low -- about 60% -- a large proportion of SOT goes uncollected. As distributors and producers are federally licensed and strictly controlled, shifting the burden to these groups would achieve close to 100% compliance, thereby raising revenues. Manufacturers and distributors would be expected to shift some or all of the additional tax burden back to retailers through the price mechanism. This proposal was offered as a means of increasing industry compliance; it is not a "new" tax.

Sen. DeConcini: How much is collected on an annual basis from the current taxing method and how did you arrive at the estimated revenue of \$130 to \$150 million to be yielded from a tax on the wholesalers and distributors?

Response: In 1989, approximately \$130 million was collected in SOT from retailers, distributors and producers; \$38 million of this was from receipt of back taxes. Excluding the back tax payments, levying a tax that would approach a 100% compliance rate for all alcohol dealers would increase revenues by about \$60 million per year.

Sen. DeConcini:

As you know, the Federal Government has historically regulated the production, distribution, and taxation of alcohol and alcohol products. One critical component of this regulatory philosophy is to ensure that the Federal Government has the capability to know the entire distribution chain from the producer to the retail outlet. This is achieved at the retail level by the special occupational tax payment requirement which you are proposing to eliminate. How do you intend to continue to ensure proper regulation of retail alcohol through the distribution chain with the elimination of this tax? The same is true for identifying criminal elements in the alcohol industry. Illegal funds can be easily laundered through retail establishments. One of the advantages of the special occupational tax is that it requires the reporting, under penalty of perjury, of names of the real owner or owner's names in the tracking of illegal activities. What are you proposing as an alternative to ensure that actual ownership information will be readily available to law enforcement?

Response:

Retailers do not require a federal license to sell alcoholic beverages, and thus are not regulated through imposition of this tax. Most information on retail liquor operations is currently obtained through state and local licensing agencies. This source of information would not be affected by changes in the SOT collection point.

INTERNAL REVENUE SERVICE

Sen. DeConcini:

In fiscal year 1991, the President's budget contains a \$635 million increase for the Internal Revenue Service bringing the total budget request for the IRS up to \$ 6.1 billion. Included in this total amount is \$191 million for yet another revenue initiative which the Administration assumes will yield an additional \$537 million in revenues in fiscal year 1991. Added to that amount is second year funding of \$68 million to implement the fiscal year 1990 revenue initiative. The IRS has admitted to me that because of pay absorption, the sequester, and other factors, IRS may realize only \$100 million of the original \$500 million assumed in the fiscal year 1990 Bipartisan Budget Agreement. At a time when IRS is running a shortfall in overall funding of \$400 million this fiscal year, why should the Congress continue to fund these revenue initiatives which do not yield the revenues claimed?

Response:

We would agree that IRS revenue initiatives in recent years have not yielded the revenue increases projected in the budget. Short-term yields have been overestimated, enforcement resources have been reprogrammed to more pressing needs in taxpayer services and

returns processing, and pay raise, sequester and other absorptions have reduced actual funds available for planned revenue initiatives as the budget year is executed.

IRS has worked diligently this year to correct these problems. The bureau has revised the methodology it uses to estimate revenue yields, expanded its management oversight of revenue initiatives with the creation of Chief Financial Officer and Controller positions and established new tracking and control systems to assure implementation of the 1991 revenue initiatives.

With more realistic revenue estimates and more effective internal management controls, we are confident that IRS can meet its revenue targets for 1991 if Congress approves the budget requested for the bureau this year.

Sen. DeConcini:

In CBO's analysis of the President's budget for fiscal year 1991, with reference to the enforcement initiative, CBO states that the proposed FY 91 enforcement initiatives would raise \$300 million in fiscal year 1991 and \$4.3 billion in the 1991 through 1995 period. This compares to the \$537 million assumed in the President's budget for fiscal year 1991 and \$5.7 billion over the same fiscal year period. CBO also goes on to state that due to pay absorptions, IRS will lose another \$100 million in fiscal year 1991. So while the initiative may cost \$191 million, at best it might bring in \$200 million next fiscal year. So why are we still playing this game? The money is not there -- you know it -- IRS knows it -- and so does Treasury.

Response:

While CBO and the Administration disagree on the revenue impact of the 1991 revenue initiatives proposed in the budget, IRS, Treasury and OMB do not. We estimate that the \$191 million 1991 revenue initiatives will generate \$537 million in new receipts in 1991, \$5.7 billion over the 1991-95 period, over and above what would be collected if these resources were not provided.

The ratio of receipts to budget authority in 1991 is generally lower than previous revenue initiatives approved by Congress. The more conservative estimates used this year by the Administration acknowledge criticisms previously raised by GAO and CBO that most revenue assessed in the first year will not be collected until later years.

Sen. DeConcini:

The largest portion of the fiscal year 1991 initiative, \$77 million, is allocated to full-blown examination field audits which according to the IRS, will not realize major revenues until 1993. As a matter of fact, the IRS indicated that the \$77 million for field examination audits will actually result in a

net loss of \$18.2 million in revenues in fiscal year 1991 and an increase of only \$2.4 million in revenues in fiscal year 1992. If the Subcommittee could not provide the funding for the examination field audits, what would be your position?

Response:

The President's budget supports the examination district office initiative as a long-term investment in tax law enforcement. While the initiative does lose money in the first year, it will collect \$1.8 billion over the period 1992-95.

Moreover, this initiative will help reverse the long-term decline in audit coverage rates. In 1976, 2.6% of all returns were audited. By 1989, this had fallen to 0.9%. In addition, a larger audit coverage increases indirect revenue; it reduces non-compliance by increasing the risks of being caught.

Negative yields in the first year are due to the opportunity cost incurred because experienced auditors are transferred from revenue-generating work to the classroom to meet increased training requirements. Including this opportunity cost was an adjustment recommended by GAO. IRS is seeking ways of reducing this cost, including using contractors for some training programs.

UNANTICIPATED NEEDS FOR NATURAL DISASTERS

Sen. DeConcini:

In fiscal year 1990, the Congress provided \$250,000,000 to the Executive Office of the President for Unanticipated Needs for Natural Disasters. This funding was provided for disaster assistance to areas of the country which sustained damage from the California earthquake and hurricane Hugo. I understand that OMB has control over those funds. Can you provide the Committee with a list of how those funds were obligated and what the total unobligated balances in the account are to date?

Can you also provide a list of the requests received for the use of these funds?

Response:

The funds appropriated to the President's Unanticipated Needs for Natural Disasters account have been allocated and transferred to various Federal agencies for disaster related activities and needs. Since obligations of these funds are accounted for by the individual agencies, OMB does not have a record of obligations. However, a listing of agency requests for funds and allocations from the account is attached for your information.

Agency requests for funds totalled \$578 million. Of the \$255 provided by P.L 101-130 and P.L 101-302, \$20 million was reserved by statute for National Earthquake Hazard

Reduction Program activities. \$15 million was rescinded by P.L. 101-302. \$240 million was allocated by the President to Federal agencies.

Sen. DeConcini: What process did you use to determine how much of the request from the agencies to fund?

Response: These were funds provided to the President "to meet the present emergency arising from the consequences of the recent natural disasters." The criteria used to allocate these funds reflected this statutory mandate. OMB considered whether the request would meet an existing, authorized Federal responsibility, whether the situation was of an emergency or life-threatening nature, and if other resources were available (through reprogramming or existing transfer authority) that could be used without causing major disruptions in the agency's other programs.

President's Unanticipated Needs for Natural Disasters Account

(\$ in millions)

	Agency Request	President's Allocation	Explanation of Allocation
<u>Department of Agriculture</u>			
Forest Service	22.0	13.0	Augments resources for fire protection (including removal of downed timber), wildlife habitat restoration, and repair of facilities.
Soil Conservation Service	40.0	15.0	Additional resources to provide financial and technical assistance to local governments for emergency debris removal from streams to prevent further flooding and damage.
Other	31.8	0.0	Non-emergency needs of the Agricultural Coop. Extension Service, Soil Conservation Service, and Agricultural Stabilization and Conservation Service that were determined to be lesser priorities for funding.
Agriculture Total	93.8	28.0	
<u>Department of Defense</u>			
Navy	160.0	5.0	Provides additional funds to repair damaged piers at Alameda and Treasure Island naval facilities and a damaged runway at Alameda.
Defense Total	160.0	5.0	
<u>Department of Education</u>			
Virgin Islands, Puerto Rico, South Carolina, North Carolina	39.0	67.6	For repair and reconstruction of damaged schools. By statute, if emergency funds are insufficient, funds must be transferred from
California	38.5	9.6	
Other disasters	3.9	1.2	
Administrative Support	0.1	0.4	

Less: funding available	(16.0)	(16.0)	other DoED programs. This allocation seeks to avoid mandatory transfers and possible supplemental requests.
Education Total	65.5	62.8	
<u>Department of the Interior</u>			
National Park Service (NPS)	16.1	10.7	Augments funds available to repair damaged NPS facilities (\$10.0 million) and for grants to States and the National Trust for Historic Preservation to stabilize damaged historic structures (\$0.7 million).
Fish and Wildlife Service (FWS)	10.2	6.3	Additional resources for Puerto Rico endangered species emergency recovery needs (\$2.0 million) and repair of damaged FWS facilities on national wildlife refuges and other areas (\$4.3 million).
United States Geological Survey (USGS)	5.5	5.0	For repair and replacement of damaged flood warning network equipment and facilities (South Carolina and Puerto Rico), repair of damaged equipment and facilities at the Menlo Park earthquake warning and research center, development of a flood warning system and emergency ground water supplies in U.S. Virgin Islands, and risk and assessment studies to help prepare for future disasters in the Caribbean and Carolinas.
Interior Total	31.8	22.0	
<u>Department of Labor</u>			
JTPA Title III — Emergency Assist.	5.0	0.0	Other DOL resources available for temporary jobs, health and safety services, and recovery activities.
Labor Total	5.0	0.0	
<u>Department of Transportation</u>			
Federal Aviation Administration	41.2	1.0	Additional funds for extraordinary operating costs in the U. S. Virgin Islands, including overtime for air traffic control personnel and hazardous duty pay.
Transportation Total	41.2	1.0	
<u>Department of Veterans Affairs</u>			
Medical Care and Research — Palo Alto	19.2	15.6	For repair and replacement of broken or destroyed supplies; lease space for displaced research activity; emergency overtime pay; transfer of patients to other VA hospitals.
Temporary Buildings: Menlo Park/Palo Alto	45.2	20.3	For construction of temporary buildings (50 beds and support space) to house patients displaced from damaged facilities.

Building Seismic Strengthening	8.2	8.2	For repair of structural damage to Palo Alto psychiatric building.
New Bed Addition - Adv. Planning & Design	22.0	20.0	Additional funds for the design of a new bed tower (including construction documents and site development) to replace damaged main building in Palo Alto.
Medical Center -- South Carolina	3.0	1.0	Supplements existing funds available to meet extraordinary operating costs, including additional ambulance service and repair of equipment.
Other	6.2	0.0	For non-essential administrative costs, cemetery repairs, and elevator repair.
VA Total	<u>103.8</u>	<u>65.1</u>	
General Services Administration			
Repairs	61.0	15.0	For repairs to damaged historic Court of Appeals and Post Office, San Francisco.
Other	16.0	0.0	For non-essential administrative support, design and management services, and leases.
GSA Total	<u>77.0</u>	<u>15.0</u>	
Total Funds Requested/Allocated	<u>578.1</u> ^{1/}	<u>198.8</u>	

Funds Allocated Pursuant to Congressional Direction

2/

Funds for National Earthquake Hazards Reduction Program (NEHRP)

Federal Emergency Management Agency	**	3.0	For grants to States for earthquake preparedness.
Department of the Interior: U.S. Geological Survey	**	12.0	For additional short-term and long-term research on the causes and effects of earthquakes.
National Science Foundation	**	3.0	For grants to universities for seismology and earthquake engineering research.
Department of Commerce: National Institute of Standards and Technology	**	2.0	For building and structural research to improve earthquake resistance.
NEHRP Total		<u>20.0</u>	

1/ The Department of Commerce requested \$3.7 million for NOAA after the President had allocated all funds available except for allocations pending in the supplemental appropriations bill.

2/ Allocations per October 25, 1989 Senate colloquy and statutory and report language for P.L. 101-302.

Allocations Pursuant to Dire Emergency Supplemental (P.L. 101-302)

Federal Emergency Management Agency	**	2.5	For the State of Nebraska for disaster occurring on March 13, 1990.
Department of Commerce: Economic Development Administration	**	2.5	For the State of Kansas for disaster occurring on March 13, 1990.
Department of Agriculture: Forest Service	**	16.0	For Forest Research, State and Private Forestry, and National Forest System.
P.L. 101-302 Total		<u>21.0</u>	
Total Allocations		<u>239.8</u>	
Funds Appropriated			
P.L. 101-130		250.0	
P.L. 101-302		<u>5.0</u>	
Total Appropriations		255.0	
Funds Rescinded pursuant to P.L. 101-302		(15.2)	
Total Funds Available for Allocation		239.8	
Funds Remaining in President's Unanticipated Needs for Natural Disasters Account		(0.0) ^{3/}	

^{3/} Does not add due to rounding.

POSTAL SERVICE/GOVERNMENT MAIL RATE

Sen. DeConcini: For the second year in a row, the Administration is proposing a separate subclass of mail for the Federal Government. In your budget appendix for FY 91 you assume that establishment of the separate government subclass of mail will save \$220 million. Can you tell the Committee how this \$220 million savings was arrived at?

Response: The savings were calculated by identifying the difference between overhead allocated by the Postal Service to government mail and the overhead for similar classes of mail times government's mail attributable cost and projected volume.

Sen. DeConcini: The Postal Service does not agree with this level of savings. I am advised that if the Postal Service were to in fact establish this separate government subclass, as you propose, the Postal Service would have no choice but to raise the cost of first class mail to other users. In other words, if the Government is to pay less, then Aunt Minnie, who sends a handwritten letter to her niece, would have to pay a higher rate to send her mail. Are you, therefore, suggesting that the Government pay less so that others who use the mail system will pay more?

Response: The budget proposes to recognize the federal government's efficiency in preparing low-handling cost mail by establishing separate cost-based government postage rates. On average, non-government mailers overhead charge is 60% of their direct cost for first-class mail. The Federal Government pays 100%. Over 80% of government mail is first class.

Government rates would be based on actual direct costs plus overhead charges equal to average overhead rates for comparable classes for commercial and individual mail. The Federal Government would no longer pay a disproportionate share of business and personal mailer's postage costs.

REVENUE FOREGONE

Sen. DeConcini: The President's budget assumes a savings of \$112 million from the enactment of legislation altering the use of the preferred postal mailer for certain classes of mail. Can you tell the Committee how you arrived at the estimated savings from each of your proposals?

Response: The savings were calculated by using data in the 1986 PRC Report -- updated to reflect current rates and volumes. For example, educational savings were calculated as follows:

PRC determined that 31.7% of third class nonprofit mail (\$384 million in 1991) was "educational"; and only 30 thousand of the 96 thousand educational mail permits are held by institutions with traditional student/teacher relationships. (Postal Service roughly estimates that 50% of the non-traditional educational mailers could requalify for another reduced-rate category like philanthropic, scientific, etc.)

$$\begin{aligned} (96k-30k) \times 50\% &= 33 \\ 33/96 &= 34.5\% \text{ reduction factor} \\ 31.7\% \times 34.5\% &= 10.9\% \\ 10.9\% \times \$384 \text{ million} &= \$42 \text{ million savings} \end{aligned}$$

Sen. DeConcini: Can you also explain to the Committee what you believe would be the impact from the implementation of each of the OMB proposals?

Response: Under the Administration's proposal, legitimate charitable and benevolent mailers would continue to receive reduced postage subsidies -- \$373 million in 1991.

OVERVIEW OMB BUDGET

Gen. DeConcini: In fiscal year 1991, the budget request for the Office of Management and Budget totals \$49.3 million, or an increase of \$5 million above the fiscal year 1990 Post-Sequester funding level. The largest portion, \$2.757 million, is for proposed computer improvements for your budget, financial information and office automation systems. While no funds have been requested for continuation of "Expenses for Management Improvement", in fact, calculated into your long-term costs for the automation projects is \$740,000 of the \$1 million appropriated by the Congress in fiscal year 1989 for management improvement initiatives. Has the remaining \$260,000 been expended to date on automation improvements? If so, when and for what purpose? If not, when do you plan to obligate the remaining funds?

Response: The \$260,000 figure represents \$182,000 spent in FY 1989 on the Office Automation effort, primarily for equipment and supplies. The remaining \$78,000 was held as a reserve. Since the time our justification was printed, \$25,000 has been spent on the automation improvements, while \$66,950 remains available for expenditure as of July 1990.

Sen. DeConcini: Your budget justification indicated that the long-term costs for these projects total \$9.6 million. This is a hefty sum of money for computer hardware and software upgrades. How do you know that this system will not be out of date by the time it is completed in fiscal year 1994 and what steps are you taking to ensure that any investments in these systems will be compatible with future technological advances?

Response: The current OMB plan, as requested in this budget submission, will meet desktop processing requirements for a number of years. The primary requirements for text processing, spreadsheet development, and for connectivity between analysts' work stations and the mainframe are being addressed in phases. The first phase in the Office Automation project is scheduled for completion in the fall of 1990.

OMB does not need an Office Automation System on the cutting edge of technology. The current plan is driven by two primary needs: 1) replacement of a leased minicomputer system that serviced only 120 users out of a potential population of 500; and 2) the need to construct an efficient means of communication between staff and the budget information systems.

The Budget Systems upgrade should provide sufficient information systems support for the

remainder of the decade. Our objectives are to use automation to adapt to the constantly changing demands of the budget process without overwhelming OMB's career staff with clerical work. Current systems lack the needed flexibility. The technology of the new system should permit us to evolve with changing requirements for years to come.

At this time, however, we believe the investments in the \$9.6 million will be compatible with future technological advances.

Sen. DeConcini: What do you believe ought to be the optimum technological life of the new system?

Response: The five year plan for office automation responds directly to the mandatory replacement of the minicomputers which have serviced OMB for many years.

The current plan is to build a base system capable of a long life span. OMB recognizes that periodic upgrades of selected subgroups of users may become desirable as new technology is made available. For the five year plan, as reflected in the budget request, these expenditures will permit OMB to process all known automation requirements indefinitely.

The building of software systems around relational data base technology will provide OMB with a solid foundation for the rest of the decade. The current upgrade strategy will modernize aged batch systems software. The inability of the current systems to respond to rapid changes in OMB requirements simply is too much of a constraint. The use of a relational data base technology will clearly modernize the Budget and Financial Systems.

Sen. DeConcini: Is there any way you can project the long-term costs for system upgrades once the system is brought on line? If so, what do you anticipate the costs will be in the first years of full operation?

Response: As of July 1990, the projections in the five year OMB plan cover all known costs. OMB is not aware of any upgrades which have not been included in the five year plan. OMB will continue to monitor performance requirements and changes in automation technology to ensure full consideration is given to maintaining a cost-effective system.

Summary of ADP Systems Projects
(dollars in thousands)

	1990	1991	1992	1993	1994	90-94
Budget and Financial Info Systems	\$500	\$2,000	\$2,142	\$1,175	\$930	\$6,747
Office Automation						
Management/Non Secure System	200*	262	148	0	0	610
Secure System	85*	120	80	0	0	285
OIRA System	0	100	50	0	0	150
Equipment	455*	275	620	200	250	1,800
SUBTOTAL	740*	757	898	200	250	2,845

* From funds appropriated in FY 1989 for Expenses in Management Improvements.

Sen. DeConcini: If you had to prioritize your automation projects, which projects would rank highest? Could you please list the costs?

Response: For the current year the Office Automation project has the highest priority. By mid FY 1991, a transition will occur that suggests the Budget and Financial System will take on the highest priority. Yet, the two OMB projects are much more complementary than competitive. Both Desktop (Office Automation) and Mainframe (Budget Systems Project) are essential when it comes to developing budgets. By planning a portion of each project over the five year period, OMB obtains some immediate payoffs without waiting for the entire system to be completed.

The OIRA funding request is separate from both the Budget Systems and the Office Automation project because of improvements being sought which apply specifically to that operation. This total expenditure of \$150,000 over two fiscal years will enable OIRA to improve their processing environment and share in the use of new technology.

The costs are reflected in the proceeding response.

Sen. DeConcini: What are the total costs of the Budget and Financial Information Systems when you take into account the costs to other agencies for linking up with the OMB system?

Response:

OMB Funding
\$ in thousands

1988	165
1989	59
1990	500
1991	2,000
1992	2,142
1993	1,175
1994	930
	6,971

The Office of Administration is also requesting \$4.9 million in 1991 which includes \$4.4 million for a new mainframe computer. The replacement computer will be better suited to the new directions OMB is pursuing on information systems but is not being requested solely to meet new budget systems requirements. The Office of Administration is also estimating they will need a total of about a million dollars in fiscal years 1992-1994 to support OMB's plans. At this time, costs for other agencies is considered negligible.

Sen. DeConcini:

From these systems improvements, in five years, what additional capabilities will you have that you don't have now?

Response:

It will make OMB's computer support more responsive to (1) requirements in the Gramm-Rudman era of budgeting, (2) continuing legislative changes to the budget process, and (3) supporting budget discussions between the Administration and the Congress.

Specifically, three benefits are expected:

The OMB staff will be able to exchange documents via a network facility. This exchange will include all units of OMB and permit fast and accurate exchange of data. Not only will the staff be able to transmit data, but individual users will be able to apply their personal skills in problem solving to more complex problems using personal computer software that would be constrained or impossible on the majority of the current personal computer inventory.

Better management of budget analyses. For example, assuring consistency between appropriations tracking, reconciliation legislation, and overall budget totals is a difficult process with existing systems.

Better communication. Existing paperwork approaches are too cumbersome and slow to be effective for today's fast-paced requirements. Electronic communications between office automation work stations will be faster and more disciplined.

Reduced Staff time on clerical work. The current inefficient systems create bottlenecks, confusion, and inefficiency, swamping analysts with data requirements that push out other essential work.

Sen. DeConcini: Your justification states that the "Management/Non-Secure System" will have the capability to track the President's Management by Objectives System (MBO). In reality, how can management improvements government-wide be tracked and assessed solely through computers? It seems to me that unless on-site oversight reviews are undertaken, management assessment by computers could be misleading. What are your views on this subject, and how can you assure the Committee that your automation strategies will realize the management objectives contemplated?

Response: The primary way in which the President's MBO system is being tracked is through quarterly progress reports which are submitted by the Cabinet departments and participating agencies. For each objective, these reports provide both an identification of progress toward meeting critical milestones and a narrative assessment which highlights both significant achievements and significant problems that require corrective action. In addition, communication with the departments and participating agencies on the MBO program is carried out at various levels, including periodic management reviews with high-level officials and discussions at the Program Associate Director and the senior staff levels. At the present time, all of this communication is done through written reports and direct discussions with appropriate officials.

OMB has not made any attempt to perform MBO management assessments by using a computer tracking system. In the future, we anticipate that there will be some value in using the Management/Non-Secure System to keep track of the routine reporting of the agencies concerning their planned dates for achievement of milestones. However, we agree that the emphasis for the conduct of management assessments must continue to be on-site reviews and direct communications with agency officials on their progress.

INVESTMENTS IN MANAGEMENT IMPROVEMENT

Sen. DeConcini: In fiscal year 1990, the Congress provided \$500,000 to OMB for a study on Investments in Management Improvement. What is the status of that study? Have any funds been obligated to date? If so for what purpose?

Since no funds were requested to continue the "investment" projects in fiscal year 1991, is it fair to assume that the study conclusions

did not support a requirement for future funding for these projects? Please explain? If not, what did the study conclude and how do you plan to proceed on this project?

Response:

OMB is using the management improvement funds for two projects:

- (1) Intensive review and evaluation of selected agencies' five-year financial systems plans (required by OMB Circular A-127) by teams consisting of agency, IG, OMB, Treasury and private sector representatives. These studies will be used to improve the quality and usefulness of the plans for long range planning and resource allocation, and provide assurance that Federal agency financial systems provide the kind of information necessary to support decision-making. Up to \$400,000 is planned for this activity, mostly for a contract for private sector involvement in the review work.
- (2) Completion of a project begun by the Joint Financial Management Improvement Program (JFMIP) to define standard data elements for all OMB and Treasury reports, in order to ensure consistency among those reports. Up to \$100,000 will be used to provide contractor support for this project.

Both of these projects are now underway; however, none of the funds have been obligated for the contract work as of July 1, 1990. We anticipate that funds will be obligated in the next 90 days.

While no funds were specifically requested for Investments in Management Improvement in the 1991 budget, funds were requested for what OMB considered to be that year's high priority management improvement initiative -- strengthening management integrity. Nearly \$3 million and 41 FTE were requested in 5 select agency budgets (VA, HUD, NASA, USDA, Interior) to bolster their capacity to oversee and monitor integrity program operations and/or audit follow-up activities.

We have every intention of using the results of the reviews of five-year financial systems plans in evaluating agencies' 1992 budget requests. Further, we will request additional funding, if the pilot reviews prove worthwhile, to conduct additional assessments.

Completion of the data standardization project is the essential first step toward an integrated database, which will provide timely and consistent government-wide budget and financial data. We expect that the Department of the Treasury will request funding for the next phase of the project in its 1992 budget request.

MANAGEMENT ACTIVITIES

Sen. DeConcini: In fiscal year 1990, the Congress provided increased funding for OMB personnel to improve the Management Activities for the Office of Management and Budget. From your FY 91 justification, I see that an additional 29 positions were allocated to "Management" activities. However, the justification notes that the Privatization Office has been moved to the Management area. How many Privatization positions were transferred to the Management area?

Response: Five positions were transferred.

Sen. DeConcini: In providing the additional funds for enhanced Management activities the Congress instructed OMB to provide quarterly reports to the Committee documenting the improvements made from the increased focus in this area. The Committee did not receive your first quarterly report until April 16, 1990. Do you want to explain your reasons for not complying with the Committee's instructions on this subject on a more timely basis?

Response: The delay in submitting the first quarter's report resulted from an inadvertent oversight. Because of the delay, the reports for the first and second quarters were consolidated. The Committee will receive future reports on a more timely basis. In addition to the submitted report, OMB regularly provided the Congress with information on management activities, such as the list of high risk areas, during this period.

Sen. DeConcini: What can you tell us about your Management activities -- what achievements have been made to date as a result of the enhanced staffing levels? What achievements do you anticipate in fiscal year 1991? Please provide specifics.

Response: The increase in staff resources is being used to help develop and carry out key management initiatives. Summaries of specific efforts being undertaken in four major areas are provided below.

Other major activities being supported by this increase in staff include:

- o Establishment and operation of a Management by Objectives (MBO) System
- o Development and analysis of government-wide pay reform proposals
- o A renewed emphasis on agencies undertaking program evaluations
- o Efforts to strengthen the government's capability to do long-range planning
- o Definition of substantial improvements in government management information systems.

Examples of specific initiatives being undertaken in four key management areas are as follows:

MANAGEMENT INTEGRITY:

- o High risk area list: Based on a review of agency Federal Managers' Financial Integrity Act (FMFIA) reports, IG reports, and internal OMB consultation, the high risk list has been revised. It is being used as a key document for assessing and monitoring agency actions for the nation's most serious management control problems.
- o Management integrity section in OMB Circular A-11: To tie correction of high risk areas to the budget process, OMB developed a new section in OMB Circular A-11 requesting information on the resource needs for these areas. Submissions, due September 1, 1990, will be used in the 1992 Fall budget review cycle. This will provide a new capability to link the assessment of risk and necessary corrective action for key government programs to the federal budget process.
- o Program memorandum on improving management control program operations: Agencies have been given guidance on ways to improve the management control process and to better apply the FMFIA to program management areas. OMB expects that strengthened agency FMFIA programs will lead to risk reduction, cost savings or avoidances, and demonstrated improvements in program service delivery.
- o Guidance for preparing 1990 FMFIA reports: OMB will issue revised guidelines for use by the agencies in preparing this year's report. Changes will include: expanded reporting in the program management area versus administrative management; incorporation of high risk reporting; priority setting for material weaknesses; and an expanded milestone calendar for correcting material weaknesses.
- o Revision of OMB Circular A-123, "Internal Control Systems": OMB will revise this circular by December 1990, in preparation for the 1991 reporting cycle, to emphasize that program management is a key component of agency management control efforts.
- o Revision of OMB Circular A-50, "Audit Follow-up": To integrate audit follow-up with management process, OMB plans to revise and rename A-50 (Audit Management). The circular will be brought into agreement with the requirements of the Inspector General Act Amendments of 1988. Evaluation of implementation of the Circular will occur in 1991.

FINANCIAL SYSTEMS AND POLICY

- o Standard Setting: OMB is exploring alternative means for setting Executive Branch accounting and reporting standards. The goal is to decide on the vehicle and put it in place in early 1991.
- o Financial Statements and Independent Audits: OMB has a project underway to ensure that agencies have audited financial statements. The plan is to achieve that goal over a three/four year period, beginning in 1991.
- o Integrated Budget and Accounting Systems: OMB has undertaken a long-term project to improve the collection of budget and accounting data by central agencies, including: (i) automation of budget execution data, (ii) expanded budget execution reporting, and (iii) establishment of a government-wide budget and accounting data base. The first phase of the project, automation of budget execution data, will be completed in 1991.
- o Financial System Plans: In 1990, OMB will be arranging for intensive, on-site reviews of selected agencies' five year financial systems. Depending on the results, additional reviews will be scheduled in 1991. (Also see the answer to the question on Investment in Management Improvement Funds.)

CREDIT AND CASH MANAGEMENT

- o Guaranteed Loan Management: In 1990, a task force convened by OMB and Treasury of major guaranteed loan agencies found that agencies have not been rigorous in setting and enforcing lender requirements and in monitoring lender performance. OMB intends to implement a program for improved guaranteed loan management that will address lender eligibility and monitoring, loan origination and servicing, asset management and disposition, and financial information requirements. Recommendations for this program are currently under consideration by the Federal Credit Policy Working Group.
- o Direct Loan Management: Improvements in the financial condition of the direct loan portfolio will be gained by continued emphasis on the Nine Point Credit Management Program, which addresses the entire credit cycle from loan origination through servicing to delinquent debt collection. Special emphasis will be placed on: (1) more effective procedures and controls for the origination and servicing of direct loans, including improvements to techniques for screening

applicants for delinquent Federal debt; (2) enhanced financial reporting and information, including early warning of emerging problems; and (3) use of private sector attorneys to support litigation of delinquent debt.

- o Income Tax Refund Offset Program: Offset of delinquent debts owed the Government against tax refunds due delinquent debtors has been extremely successful. Over \$300 million has been recovered so far in 1990, and \$1.5 billion has been recovered since the program began 1984. Expansion of the program to include offset of corporate delinquent debt against tax refunds is underway. Implementation of the corporate offset program is targeted for January 1991.
- o Delinquent Tax Collection Initiative: OMB will coordinate with IRS on the development of a comprehensive long-range management plan to ensure effective use of modern technology and trained personnel and to address the way IRA organizes to collect taxes. IRS is expected to increase collections by \$2.25 billion over the 1991-93 time period through a combination of management improvements, reprogramming, and resource growth. To monitor these efforts, improved accounting and reporting to OMB and Congress will be required.
- o Electronic Benefit Transfer (EBT): There are an estimated 8 million direct Federal beneficiaries (such as Social Security recipients) and 20 million benefit recipients in State-administered programs (such as Food Stamps) who do not have bank accounts. EBT would deliver benefits to these recipients through automated teller machines (ATM's) and point-of-sale terminals. Several agencies have undertaken pilot tests, and OMB will be working with agencies to apply the results of these tests to the goal of combining all Federally related benefit payments to an unbanked recipient on a single plastic card.

INFORMATION TECHNOLOGY

- o Presidential Priority Systems: Two of these systems, the Social Security Administration's Strategic Plan and Weather Service's Advanced Weather System are reaching a critical point and will receive special focus.
- o Standards policy: OMB will work with the National Institute of Standards and Technology and with other government and private organizations to continue to support the national and international voluntary standards setting process

in its work to produce standards for information processing systems. OMB will evaluate the need for a revision of OMB Circular No. A-119, "Federal Participation in the Development and Use of Voluntary Standards".

- o Information Systems Planning: OMB will produce and issue an appendix to OMB Circular No. A-130 that provides guidance to agencies on information systems planning.
- o National Research and Education Network: The Administration's High Performance Computing Initiative depends on a nationwide high-speed network to link research and educational institutions' computers. OMB will participate with other agencies in planning and implementing this project.
- o Center for Information Technology Management (CITM): Develop a charter for CITM detailing the scope of the Center's activities.
- o Encouraging electronic commerce (Electronic Data Interchange): Develop and issue an OMB policy statement encouraging the conversion of additional transactions to electronic form, and providing guidance about legal and internal control issues.
- o Assuring the Privacy and Security of Federal Systems: As government and large institutions in general become more dependent on technology, they become increasingly vulnerable to its misuse. By statute, the Privacy Act and Computer Security Act, OMB has substantial responsibility and authority to address these concerns. Among the initiatives OMB will undertake in this area are the development of a governmental policy on the use of caller identifying data by Federal agencies. Another initiative will be the revision of OMB Computer Security Guidance to reflect the provisions of the Computer Security Act of 1987.
- o Information Dissemination Policy: OMB will draft and publish for comment a revision of its dissemination policy. In addition, OMB will begin work on a general updating of Circular No. A-130 to bring it in line with legislative and policy/administrative changes.
- o Reducing Procurement Paperwork: Information collection requirements related to procurement activity result from Federal procurement regulations requiring (1) information in response to requests for proposals (RFPs) and (2)

information from contractors to the Government during contract performance, or in follow-up audits. As a result of the various procurement regulations, over 289 million burden hours are annually imposed on the public, making procurement paperwork the second most burdensome information requirement imposed on the public, behind tax reporting and recordkeeping. OMB will develop Paperwork Reduction Act-based criteria for determining which information requirements should be thoroughly examined and will work with the Office of Federal Procurement Policy to identify those paperwork requirements with questionable practical utility.

COMPUTERS

Sen. DeConcini: Is the 5-year automation initiative contained in your fiscal year 1991 budget request the same as the Max-2000 initiative which was first funded by the Committee in FY 1989?

Response: Yes. The 1989 appropriation provided that up to \$1 million could be taken from OMB's Salaries and Expense account operating budget for a consolidated Federal budget and financial information system.

Sen. DeConcini: If so, why isn't it referred to as Max-2000? If not, what specific projects contained in the 5-year plan are part of the original Max-2000 initiative?

Response: Within OMB, the budget information system upgrade project is still referred to as "the MAX project" as a kind of shorthand expression. We dropped the phrase "MAX 2000" as an official title because the project deliverable will be in place in the next few years. "MAX 2000" had begun to sound too futuristic.

Sen. DeConcini: As this project is funded in phases, will there also be a corresponding productivity savings in OMB's budget? If so, what do you expect the associated savings to amount to by phase?

Response: Substantial productivity savings are expected in the sense that professional staff who are now overwhelmed with clerical tasks generated by out-of-date information systems will devote relatively more of their time to analytic support and less to clerical tasks. Productivity savings are also expected because of quicker response times and more flexibility to adapt to the rapidly changing budget requirements of the Gramm-Rudman era. OMB enjoyed a similar experience in the early 1980's by applying modern printing technology to the printing of the President's budget and establishing an OMB agency information

network. The time required to produce the President's budget was reduced from 8-12 weeks to 6-8 weeks, the quality of agency submissions improved, and expansions in the technical data supporting the budget (e.g., the GRH estimates) were accommodated with no staff additions. The changes in budgeting that have been part of the 1980's could not have been anticipated, but early automation improvements were of great help in responding to them.

Sen. DeConcini: What are the savings to the agencies which will be linked to OMB -- will we see a savings in their budgets as a result of these automation projects? If not, why not?

Response: As with OMB itself, the productivity of affected agency staff is expected to improve when OMB's automation improvements are in place. However, the changes are oriented toward finding less demanding ways to meet legal and other requirements (e.g., support for the budget negotiations with the Congress) that are restricting the time available for other necessary budgeting tasks. The problem is little different from the year-round budget pressure that is consuming more time for members of Congress and congressional staff.

Sen. DeConcini: What are the total additional costs to other agencies as a result of this Budget and Information system? Does the total cost of \$6.8 million include costs to OMB only, or is this estimate based on the cost to all agencies for the system?

Response: The \$6.8 million is an estimate of what will eventually be appropriated to OMB over 1989-1994. The Office of Administration is also requesting \$4.9 million in 1991 that includes \$4.4 million for a new mainframe computer. The replacement computer will be better suited to the new directions OMB is pursuing on information systems but is not being requested solely to meet new budget systems requirements. The Office of Administration is also estimating that they will need a total of about a million dollars in FY 1992-1994 to support OMB's plans. Other agencies' costs are not expected to increase.

DETAILLEES

Sen. DeConcini: How many detailees does OMB presently have on board? Can you please provide a complete listing of detailees identified by those who are reimbursable versus nonreimbursable, the purpose for which the employees have been detailed to OMB, and the length of time the individuals have been on detail?

Response: As of May 23, 1990 OMB has four detailees on board. Of these four, two are reimbursable and two are nonreimbursable.

Of the two reimbursable detailees, one works in the National Security & International Affairs Special Studies Division and is completing a training program which took longer than six months. The other reimbursable detailee is a secretary in the Management area and has been with OMB for less than one month.

Of the two nonreimbursable detailees, both are on official agency sponsored training programs and have been with OMB less than six months.

PAY RAISE

Sen. DeConcini: If the Congress directed OMB to absorb 50 percent of the costs of the 1991 pay raise, where specifically would you take the reductions?

Response: If OMB were required to absorb 50 percent of the costs of the 1991 pay raise, reductions would have to be made in travel and supplies. Additional reductions would have to be taken either in personnel staffing levels or the automation initiatives budgeted for in FY 1991.

Sen. DeConcini: What are the specific costs for OMB in FY 1991 for the annualization of the 1990 pay raise; the 1991 General Schedule COLA; and the SES/EX pay raises?

Response: The cost in FY 1991 for the annualization of the 1990 pay raise is \$292,000; the 1991 General Schedule COLA \$828,000; and the SES/EX pay raises \$1,118,000.

Sen. DeConcini: What amount would you need to cover 50% of the increased costs of the 1991 pay raise?

Response: OMB would need \$962,000 to cover 50 percent of the increased costs of the 1991 pay raise.

QUESTIONS FOR WILLIAM DIEPFENDERFER - GSA BUDGET AMENDMENT

Sen. DeConcini: What are the long-term federal office space needs beyond 1993 and what process do you intend to utilize to determine what those needs are and how projects will be funded?

Response: GSA reviews and updates projections of Federal requirements for office and other types of space through its ongoing community planning process. In addition, GSA has initiated efforts to enhance long-term capital investment planning at the national level. For example, GSA is currently developing a

five-year capital investment plan that will compare projected capital investment requirements during 1992 through 1996 to projected resources that will be available for capital investment in the Federal Buildings Fund. The results of this comparison will indicate whether available resources might need to be supplemented by other sources of funding.

Sen. DeConcini: Do you have any idea what the costs are for the long-term needs?

Response: We do not have a cost estimate at this time. When GSA has completed its long-term capital investment plan, we will be in a better position to speculate what the long-term costs will be. However, changing space requirements of GSA's client agencies will have a direct impact upon such long-term projections.

Sen. DeConcini: I have a letter here from you, Mr. Diefenderfer, dated April 30, 1990, which speaks on some of the scoring issues. The letter states that "OMB will score budget authority up front for the full construction and financing costs for any long-term, capital building lease or lease-purchase, in the year that Congress acts". Mr. Diefenderfer, how does OMB plan to score short-term leases -- will there be any difference between a long-term capital lease and a short-term lease from a budget authority scoring aspects?

Response: The April 30th letter applied long-standing budget concepts of budget authority and obligations to a specific case -- long-term capital building lease or lease-purchase agreements. These budget concepts are based on definitions included in laws such as the Congressional Budget Act and the Anti-Deficiency Act. Budget authority and obligations will be recorded based on the same concepts for short-term and long-term agreements.

There is no difference in the general concepts used to analyze long-and short-term leases; however, the application of these concepts is different due to the different situations to which they are applied. Long-term (capital) leases for the use of the facility or asset represent effective ownership by the Government. In these cases, it is assumed that no option to reduce the initial obligation will be exercised (e.g., an option to terminate a lease). Short-term (operating) leases will include either explicit or implicit rights that limit the liability of the Government. No assumptions will be made about options to increase the obligation.

A lease is defined as an operating lease if it meets the following criteria -- if not, it is a capital lease.

- o Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period;
- o All risks of ownership of the asset (e.g., financial responsibility for destruction or loss of the asset) should remain with the lessor, unless the Government is at fault for such losses;
- o The lease term does not exceed 75 percent of the estimated economic life of the asset;
- o The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease;
- o The asset is a general purpose asset, rather than for a special purpose of the Government. There is a private-sector market for the asset;
- o The project is not constructed on Government land; and
- o The lease does not contain a bargain-price purchase option.

Sen. DeConcini:

The President's FY 91 budget for the GSA contains only the 1991 lease payments for both short and long term leases. That amount is \$98 million. If OMB now plans to score the full budget authority up front for the total value of all leases to be let in fiscal year 1991, I am told that the value totals \$1.069 billion -- an amount which is not reflected in the President's budget. How do you expect the Subcommittee to comply with this scoring change without a request from the President for \$1.069 billion in additional budget authority?

Response:

The 1991 request for the GSA Federal Buildings Fund may not contain enough budget authority to cover the full obligations of the leases assumed in the request under the scoring principles outlined above which were developed over the last six months. Also, over the past six months, as a result of discussions with Congressional staff on the appropriate scoring for lease purchases, it has become clear that some agencies may not follow these principles for recording budget authority on multi-year agreements.

Further analysis is required to determine whether agencies are complying with current requirements. OMB is collecting data from the agencies to determine the extent to which leases may be currently understated in the budget. It is our intention to reflect fully the budget authority requirements for new leases in the 1992 budget. Scoring

Congressional action on the 1991 Budget will be based on the same assumptions used in compiling the 1991 Budget.

Sen. DeConcini:

The April 30, 1990 letter further states that "if the legislation providing authority to acquire a building by lease clearly requires private risk, outlays will be scored over the life of the agreement". The letter goes on to state that "OMB will consider other characteristics in evaluating the level of private sector risk in a project" such as "whether the project is constructed exclusively for the Federal Government; whether it is built on government-owned land; whether the project is of net benefit to the government; and whether it is built to specific government requirements". What if the authorization is not clear as to the private sector risk, will OMB score the project as if there was not sufficient private sector risk or how will this be determined so that this Committee knows specifically how a project will be scored at the time it is authorized?

Response:

The answers to earlier questions attempt to provide more clarification as to the nature of the criteria. However, the criteria cannot be so explicit as to remove all ambiguity over their interpretation. Scoring rules are general statements that establish principles, as are budget concepts and budget accounting rules. The general principle for scoring is that obligations incurred (that result in immediate or future outlays by the Government) require budget authority. The general principle for scoring outlays is that disbursements by the Government, or by its agents, should be recorded as they occur.

Sen. DeConcini:

What if a project is authorized for a lease purchase with the clear understanding that the project will be financed through the Federal Financing Bank? How will it be scored?

Response:

Budget authority equal to the cost of the project would be scored to the agency in the year it first became available. Outlays for construction or purchase would equal the disbursements of the Government to the contractor over the period of construction. The agency would redeem its debt to the FFB through annual appropriations or other budget resources over the next 30 years for the amount borrowed plus interest. As repayment of agency debt, appropriations provided over this period would not be scored as budget authority. The interest payment would be scored in the year it is spent as both budget authority and outlays by the agency. An equal offsetting collection for the interest payment would be scored by the FFB -- fully offsetting the agency payment. The result is a net of zero for the appropriation of the interest payment.

Sen. DeConcini: I want to be sure I know what amount of budget authority will be scored up front on a lease purchase project if the Congress decides to continue to authorize lease purchase buildings. If a project is estimated to cost \$200 million, what amount of budget authority will be required up front if the private sector risk is unclear?

What if the Congress authorizes this same building and directs that it be financed through the Federal Financing Bank? What amount of budget authority will be required up front?

Response: If the private sector risk is unclear, OMB will assume that there is no substantial private risk. The project, therefore, would be scored as if it were a direct federal purchase (e.g., the cost could be \$255 million -- the principal plus the difference between the private cost of borrowing and the Government's cost. The actual cost would depend on several variables, including the terms of the contract and the borrowers cost of interest). If the project is financed through the FFB, only the \$200 million in principal would be scored as budget authority.

Sen. DeConcini: On the matter of the 13 previously authorized lease purchase buildings, the April 30, 1990 letter states that the Congress will not be required to take any additional funding action. Does this apply only to those buildings where contracts have been signed or does that extend to all lease purchase buildings, including the EPA, even if contracts have not yet been initiated?

Is that a firm commitment on this subject, Mr. Diefenderfer, or is this subject to change again this or next year?

Response: The April 30th letter indicated that the Budget, as amended included full funding for 21 projects that a joint OMB/GSA study identified as appropriate for direct construction. This list included DOT headquarters and EPA headquarters (both of which had been previously authorized for lease/purchase). Funds were identified for these two projects in the March 29, 1990 Budget amendment.

The letter then indicates that for the remaining projects previously authorized for lease/purchase, OMB would include the full budget authority and outlays associated with these projects in the Mid-Session Review. The projects added in the Mid-Session Review included the ICTC, Foley Square, Chicago, Oakland, San Francisco, CDC Atlanta, CDC Chamblee, IRS Memphis, IRS Chamblee, and HCFA Baltimore. Funding for Archives II and the Judiciary building was already included in the 1991 Budget. These projects will not require

any further authorization by Congress; however, the annual payments to repay the debt will still have to be appropriated in the Federal Buildings Fund and in the Judiciary's budget each year.

We are working with GSA and Treasury to ensure that as many of the lease/purchase projects as possible will be financed through the FFB. Buildings financed through the FFB will be less expensive to the Government (because Treasury interest costs are less than private rates). In addition, the interest payments will not be scored against 302 allocations under the Budget Act.

Sen. DeConcini: How will the 13 authorized lease purchase buildings be scored from a budget outlay aspect -- do you have that information yet for all of the buildings?

Response: The budgetary treatment of each of the 10 authorized lease purchase buildings will be determined as the agreements are signed (of the remaining three projects, two have already had contracts signed, and one is anticipated to be funded through direct appropriations). To the extent possible, the buildings will be financed through the FFB. In each of these cases, outlays will be scored as payments are made pursuant to contractual obligations for construction or purchase.

Sen. DeConcini: How will the outlays, scored over the construction period, be handled -- will they be included in the mid-year technical review or will they show up as prior year outlays in the fiscal year 1992 budget?

Response: The budget authority requirements for the 10 lease/purchase projects are fully reflected in the 1990 estimates of the 1991 Mid-Session Review. Outlays are spread across the construction period (1991-1995) and are defined as prior year outlays.

Sen. DeConcini: What makes the treatment of leases or purchases of Federal buildings any different from the Federal procurement of any other asset such as equipment, vehicles, development of a water project, or the development of the super collider? None of these projects require the total value for the asset up front -- does the Administration's new policy on scorekeeping apply to these types of assets, if not, maybe you can tell us why not?

Response: The purpose of the policy on scoring lease-purchase of buildings is to ensure consistent treatment of these transactions with other purchases and leases. OMB Circular A-11 has required for many years that requests "for major procurement programs . . . provide for full funding of the entire cost." This

requirement is based on the definition of obligation found at 31 U.S.C. 1501 -- a binding agreement between an agency and another person. A contract for any procurement is an obligation and funding for anticipated contracts has been included in the current and previous budgets for each of the items enumerated in your question.

A cursory review of the budget treatment of other major projects might lead to the erroneous conclusion that these are treated inconsistently. However, a more thorough review reveals that the apparent inconsistencies are the result of significant differences.

For example, military procurement actions (warship, planes, vehicles, etc.) are fully funded. However, confusion sometimes arises because similar items are procured over a multi-year period (15 aircraft might be funded in each of five years). In these cases the Government fully funds each installment every year. Each item procured is fully funded, but because each aircraft is a separate and distinct procurement, there is no reason to advance fund future purchases and remove future risk from the manufacturer.

In like manner, the President's budget proposes that discrete elements of water projects be fully funded. If Federal projects are not fully funded in the appropriations process, local project sponsors can continue the project on an incremental basis and risk a future cancellation or the need to commit their own resources.

The Superconducting Super Collider is a one-of-a-kind project for which the full cost estimates were not available when the 1991 budget was prepared (cost estimates are expected to become available in August 1990). Further, we hope and expect that other sponsors will make significant financial contributions.

OMB will continue to work with agencies to ensure consistent treatment of similar transactions throughout the budget.

QUESTIONS SUBMITTED BY SENATOR KERREY

Sen. Kerrey: Please compare the projections used in your fiscal 1991 budget request to Congress and your current projections for (a) real GNP, (b) inflation, (c) short-term interest rates, (d) long term interest rates.

Response: In the Mid-Session Review of the budget our projection for real GNP growth in calendar year 1990, fourth quarter over fourth quarter, is 2.2 percent, 0.4 percentage point lower

than our January budget assumption of 2.6 percent, in part to reflect actual data for the first quarter of the year. Our projection for 1991 is also reduced from 3.3 percent in January to 2.9 percent in the Mid-Session. Our assumption for inflation, as measured by the GNP deflator, fourth quarter over fourth quarter, has been raised 0.3 percentage points for 1990, from 4.2 percent to 4.5 percent, again to reflect developments in the first months of the calendar year. Long and short-term interest rate projections are higher for both 1990 and 1991, by about a percentage point, to reflect monetary and financial market developments since the January budget assumptions were formulated last November. The specific revisions to the economic assumptions are shown in the Mid-Session Review document.

Sen. Kerrey: To what principal factors do you attribute the changes in your projections between late January when the budget was released and late May?

Response: Less favorable economic developments than had been hoped for -- primarily higher interest rates and inflation -- and Treasury receipts collection running under expectation are two key factors leading to higher deficit estimates. Upward technical re-estimates on the spending side -- particularly for the costs of liquidating failed thrift institutions -- are another.

Sen. Kerrey: The January budget called for \$36.5 billion in deficit reduction measures in order to meet the Gramm-Rudman-Hollings goal of a \$64 billion deficit. I have read that your current projection of the deficit reduction needed is \$75 billion -- more than double the projection four months ago. Is the \$75 billion figure correct? If not, what is your figure?

Response: In the Mid-Session Review of the budget the strictly-defined G-R-H deficit, which does not include the food stamps program (which expires, under current law, at the end of fiscal year 1990), is estimated at \$148.4 billion. That implies cuts of \$84.4 billion to reach the \$64 billion G-R-H target. However, the food stamps program will almost certainly be continued, and the census baseline should be reduced for 1991 from the very high level associated with the decennial census, giving an adjusted baseline deficit of \$168.8 billion for 1991, excluding outlays of the Resolution Trust Corporation associated with closing insolvent savings and loans. That implies that \$104.8 billion in deficit reductions would be needed to reach the \$64 billion target. With full funding of likely RTC costs, the deficit baseline rises to \$231.4 billion.

The Administration's negotiators at the budget summit have indicated an intent to seek exclusion of the RTC funds -- and exclusion of the proceeds from S&L asset dispositions in future years -- from the G-R-H deficit calculations. Inclusion of the proceeds in future year deficit calculations would make realization of future year targets artificially "easy" and encourage laxer fiscal policies in those years, just as inclusion of costs in 1991 would make attainment of this year's target impossibly difficult.

Sen. Kerrey: What accounts for the \$38.5 billion change in four months? Please give figures for each item which has contributed to the reestimate.

Response: The adjusted baseline deficit in January was \$93.2 billion, excluding RTC costs. In the Mid-Session Review, the comparable figure had risen to \$168.8 billion, an increase of \$75.7 billion. As detailed in the Mid-Session document, about \$24 billion of this increase is due to less favorable economics than assumed in January, and about \$49 billion to technical re-estimates (excluding RTC).

Sen. Kerrey: What is the Administration's recommendation for reductions to meet the Gramm-Rudman-Hollings targets?

Response: (See response to next question.)

Sen. Kerrey: Does the Administration intend to make actual reduction proposals to cover the \$38.5 billion (or whatever the current figure is), as it did in January for the \$36.5 billion?

Response: In the Mid-Session Review, the January budget recommendations were re-estimated as achieving reductions of \$41.1 billion. In addition, on June 20th, the Administration negotiators advanced further savings proposals totalling \$11.7 billion. For purposes of the Mid-Session Review, the sum of these two sets of deficit reductions proposals, totalling \$52.9 billion in budget savings, represent the latest formulation of "Presidential Policy" -- subject to further negotiation in the context of the Bipartisan Summit.

Sen. Kerrey: If the President's budget were adopted today insofar as spending recommendations are concerned, what are your estimates of the percentage cuts necessary in (a) defense spending and (b) non-defense discretionary spending in order to meet the Gramm-Rudman-Hollings target?

Response: The Mid-Session Review presents advance sequestration estimates for a \$100 billion sequester. This is roughly the size of sequester that would occur in the absence of a Summit agreement if RTC is excluded from the

G-R-H baseline, or if the Mid-Session proposals (described in the previous response) were enacted but RTC were included in the G-R-H baseline. The uniform reduction percentages are 25.1 percent for defense with military personnel accounts included and 41.3 percent if they are exempt. For non-defense, the uniform reduction percentage is 41.3 percent. The Mid-Session document details some of the programmatic effects such an unprecedentedly large sequester would have on various Federal operations.

Sen. Kerrey: The Administration decided to seek a budget summit with Congress in May. What factors led the Administration to seek a summit at this particular time?

Response: The Administration sought negotiations with the Congress from the outset, recognizing that the Federal budget process has in the past decade become an inherently interactive joint legislative-executive function.

Sen. Kerrey: In January you included \$7.3 billion in the budget request for the S&L crisis and a section estimating other costs. Why was the cost presented in this fashion?

Response: The \$7.3 billion estimate included in the President's Budget was explicit in excluding "extraordinary" working capital transactions. At the time the budget estimates were made, the RTC Oversight Board was still considering three different methods of raising working capital, only one of which would have an outlay impact. Since that time, the Board has decided to use the Federal Financing Bank and there will be a subsequent outlay effect.

Even if we had attempted to make an estimate, the estimate would have been subject to considerable change. RTC will acquire a large volume of less liquid assets. Much uncertainty exists concerning the timing and volume of asset acquisitions and subsequent sales by the RTC. Hence, it is difficult to make any prediction of the amount of working capital transactions which RTC would undertake. Please note that the estimates for the budget were finalized in late December 1989, before many details on working capital transactions had been developed.

Shifts in the timing of asset purchases and asset sales could significantly alter the measurement of the deficit to meet GRH targets. Given that RTC will recover the fair market value of the assets over time, it would be inappropriate to allow such transactions to affect a GRH sequester.

Sen. Kerrey: What are your current estimates of the total cost of the S&L crisis for fiscal 1991? What

portion of the cost will be on-budget? Which expenses will be counted for Gramm-Rudman-Hollings purposes?

Response:

As the Treasury Secretary testified before the Senate Banking Committee, a representative range of the resources the RTC may need in FY 1991 would be \$34 billion to \$54 billion excluding working capital.

Under current law, all transactions of RTC as a Federal agency are counted on-budget. This includes RTC working capital financed with Federal Financing Bank borrowings which would be treated as a means of financing.

Under current law, RTC transactions would also count in the calculation of the deficit for Gramm-Rudman-Hollings purposes. Both the purchases and the sales of assets would factor in the calculation.

Sen. Kerrey:

What are your current projections of the total cost of the S&L bail-out, including the FSLIC Resolution Fund and the contribution to the Savings Association Insurance Fund, as well as the costs from the resolution of the institutions under the RTC's jurisdiction for a 10 year period? Could you break those down by category. What are those costs for a 30-year period? Could you break those down by category and include similar information for this time period. What is the basis of your projection? If your figures do not include interest costs, could you estimate those additional costs.

Response:

Information is provided through the budget planning period, which for the FY 91 budget runs through FY 95, except for interest estimates, which are provided through FY 2028. The outlay estimates depend upon a number of assumptions, including:

- The assets and numbers of thrifts resolved by RTC (and later, SAIF), and RTC's ability to sell assets acquired; and
- The cost to the FSLIC Resolution Fund of the past FSLIC deals and any refinancing, which is currently uncertain.

Because of this uncertainty, the Administration has produced estimates of the budget impact of the RTC under three different scenarios. However, OMB is required by law to provide a single "point estimate" of the FY91 costs for resolving the thrift crisis. Consequently, the Mid-Session Review estimates are based on a medium loss scenario within the plausible range of cost estimates.

The attached adjusted baseline estimates for RTC assume that 1,027 thrifts will be resolved in the FY 90-93 period at a pace of \$40 billion in assets per quarter. This group of thrifts holds approximately \$540 billion in

assets. For comparison, information on a higher and a lower cost basis is also provided for the RTC. These additional tables show what these projections would look like if loss funding is limited to the \$50 billion already available.

SAIF estimates for the adjusted baseline assume that assets of \$4 billion will be resolved each year from FY 93 to FY 95.

Estimates for the FSLIC Resolution Fund represent the best information currently available from the FDIC. They do not include any costs for restructuring deals or buyouts or existing arrangements. FDIC is currently in the process of reviewing the 1988 FSLIC deals. (If these deals are restructured, the FSLIC Resolution Fund may complete its responsibilities by 1996, or even earlier.)

REFCORP estimates of interest costs through FY 2028 are as follows: (\$ in billions):

	Treasury Payments to REFCORP	Industry Contribution	Total Interest
FY 90-99	18.6	2.6	21.2
FY 90-FY18	58.0	8.3	66.2
FY 90-FY28	78.6	11.3	89.9

July 13, 1990

FIRREA: FUNDING SUMMARY
FY 91 MIDSESSION REVIEW -- ADJUSTED BASELINE

RTC: Medium Loss Estimates
(in billions of dollars)

	1989	1990	1991	1992	1993	1994	1995	89-95	89-99
FSLIC Resolution Fund 1/									
Disbursements.....	17.0	7.5	7.4	6.4	6.3	4.7	3.9	53.2	65.7
Collections.....	-8.2	-1.7	-3.2	-1.9	-1.5	-0.8	-0.2	-17.4	-18.1
Net Outlays.....	8.8	5.8	4.2	4.5	4.8	3.9	3.8	35.7	47.7
RTC Loss Payments									
Disbursements.....	0.8	35.0	41.8	31.5	17.7	3.2	0.9	130.8	130.9
Collections.....	-1.2	-18.0	-12.0	0.0	0.0	0.0	0.0	-31.2	-31.2
RTC Working Capital									
Disbursements.....	9.5	49.7	73.3	71.8	45.8	2.8	1.0	254.0	254.6
Collections.....	0.0	-9.5	-40.6	-62.0	-68.9	-47.7	-21.9	-250.6	-258.2
Total RTC Net Outlays.....	9.1	57.1	62.6	41.3	-5.4	-41.7	-20.0	103.0	96.1
SAIF									
Disbursements.....				2.0	4.0	4.0	4.0	14.0	26.0
Collections.....				-1.8	-3.5	-3.9	-4.1	-13.4	-25.7
Net Outlays.....				0.2	0.5	0.1	-0.1	0.6	0.3
Additional Disbursements									
Treasury Payments for Bond (REFCORP) Interest..	0.0	0.4	1.7	2.1	2.1	2.1	2.1	10.3	18.6
Additional Collections									
Additional FDIC Collections.....		0.9	1.7	1.9	2.0	2.1	2.3	10.9	21.4
TOTAL NET OUTLAYS	17.9	62.4	66.7	46.1	-0.1	-37.8	-16.6	138.8	141.3
Additional Interest on the Public Debt		2.4	3.1	5.5	6.9	7.7	8.2	33.7	33.7
Total Outlay and Interest Costs	17.9	64.8	69.8	51.6	6.9	-30.1	-8.4	172.5	175.0

1/ In FY89, FSLIC issued new debt of \$9.5 billion and retired debt of \$669 million.

2/ Represents the net of \$496 billion in gross disbursements and \$355 billion in gross collections.

July 13, 1990

RESOLUTION TRUST CORPORATION
ADJUSTED BASELINE
RTC: Medium Loss Estimates
(\$ in millions)

SCENARIO: \$40 B in assets; Medium Haircut; 1027 thrifts

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95	FY 89-95
DISBURSEMENTS:								
1. Purchase of assets	942	40,602	68,541	66,262	40,770			217,117
2. Advances	8,550	8,567						17,117
3. Payment for net losses	810	33,929	36,530	24,563	10,805			106,637
4. Administrative expenses	6	1,021	5,244	6,935	6,859	3,221	887	24,173
5. FFB Interest payments		564	4,805	5,522	5,021	2,795	1,010	19,717
TOTAL DISBURSEMENTS	10,308	84,683	115,120	103,282	63,455	6,016	1,897	384,761
COLLECTIONS:								
6. REFCORP/FHLB Receipts	(1,200)	(18,019)	(11,981)					(31,200)
7. Asset receipts	(0)	(2,907)	(35,164)	(59,234)	(67,529)	(47,691)	(21,913)	(234,438)
8. Repayments of advances	0	(6,625)	(5,391)	(2,746)	(1,373)			(16,135)
TOTAL COLLECTIONS	(1,200)	(27,551)	(52,536)	(61,980)	(68,902)	(47,691)	(21,913)	(281,773)
RTC NET OUTLAYS	9,108	57,132	62,584	41,302	(5,447)	(41,675)	(20,016)	102,988
ADDITIONAL FUNDS REQUIRED			28,588	31,498	17,664	3,221	887	81,858

SAVINGS ASSOCIATION INSURANCE FUND

Budget Outlays
(\$ in millions)

	FY 92	FY 93	FY 94	FY 95	FY 92-95
DISBURSEMENTS					
Case resolutions	2,000	4,000	4,000	4,000	26,000
TOTAL DISBURSEMENTS	2,000	4,000	4,000	4,000	26,000
COLLECTIONS					
Net Assessments	(1,325)	(1,338)	(703)	(916)	(7,376)
Asset Recoveries	(524)	(2,127)	(3,214)	(3,227)	(18,277)
Interest Income	0	0	0	0	0
TOTAL COLLECTIONS	(1,849)	(3,465)	(3,917)	(4,143)	(25,653)
NET OUTLAYS	151	535	83	(143)	347
BA (Appropriations):					
Premium Supp Approp	675	662	1,297	1,084	8,624
Net Worth Approp	0	0	0	0	0
Total BA	675	662	1,297	1,084	8,624
Ending Cash & Investments	524	651	1,866	3,093	
Fund Net Worth	1,620	2,861	4,102	5,342	

MIDSESSION REVIEW FY 1991
(\$ in millions)

FSLIC Resolution Fund	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95	89-99
Interest on Notes Payable	1,566	1,863	1,836	1,807	1,663	1,555	15,291
Assistance Payments	5,688	5,193	4,249	4,081	2,721	2,016	30,018
Repayment of Pre-1987 Notes	4	56	0	85	35	76	280
Asset proceeds paid to REFCORP							0
Other Disbursements	<u>262</u>	<u>288</u>	<u>288</u>	<u>288</u>	<u>288</u>	<u>288</u>	<u>20,104</u>
TOTAL DISBURSEMENTS	7,520	7,400	6,373	6,261	4,707	3,935	65,693
FICO Proceeds							(3,750)
Net Insurance Premiums	(101)	(1,192)	0				(1,293)
Asset Proceeds	(1,370)	(1,834)	(1,763)	(1,323)	(660)	0	(6,960)
Interest Income on Cash Bal	(43)	(29)	(29)	(29)	(29)	(29)	(304)
Other Income	<u>(192)</u>	<u>(125)</u>	<u>(125)</u>	<u>(125)</u>	<u>(125)</u>	<u>(125)</u>	<u>(1,509)</u>
TOTAL COLLECTIONS	(1,706)	(3,180)	(1,917)	(1,477)	(814)	(154)	(18,071)
NET OUTLAYS:FSLIC Res Fund	5,814	4,220	4,456	4,784	3,893	3,781	47,622

QUESTIONS SUBMITTED BY SENATOR DOMENICI

FY 1991 OMB BUDGET REQUEST

Sen. Domenici: Last year, OMB indicated the best current estimate of the total cost of the Budget and Financial Information System, including hardware and software, to be \$3.5 million. The five-year systems improvement program included in the fiscal year 1991 budget justification materials indicates that the total 1990-1994 cost of the Budget and Financial Information System is now estimated to be \$6.747 million. What is the reason for the escalation in the estimated cost of this new system, from the \$3.5 million estimate you gave last year to \$6.747 million?

Response: The time frame for this revised plan is considerably extended from that of the original proposal. The time frame for the original proposal was FY 1989-1991 whereas the FY 1991 proposal covers 1990-1994. In addition, the revised 5-year plan is based on an assumption of annual appropriations. Further, the new 5-year plan calls for a more evolutionary and somewhat more thorough development effort within the parameters of existing systems. This is prudent because there is more risk associated with an incremental funding approach than with a full funding approach.

Sen. Domenici: Does the five-year systems improvement program reflect the full cost of the Budget and Financial Information System, or will funding for this system be required beyond fiscal year 1994 and from sources other than OMB?

Response: The \$6.7 million five-year estimate incorporates only those costs that will be charged to OMB's appropriation. The Office of Administration is also requesting \$4.9 million in 1991 that includes \$4.4 million for a new mainframe computer. The replacement computer will be better suited to the new directions OMB is pursuing on information systems but is not being requested solely to meet new budget systems requirements. The Office of Administration is also estimating that they will need a total of about a million dollars in FY 1992-1994 to support OMB's plans.

To the best of our knowledge, the funding discussed above reflects the full cost of the system.

Sen. Domenici: For fiscal year 1990, the appropriation for the Office of Administration was the same as the request level. This included \$250,000 for the Budget and Financial Information System. In addition, OMB indicated last year that it was able to provide \$50,000 for this system in fiscal year 1989. These amounts are not

reflected in the five-year systems improvement program table included in the fiscal year 1991 budget justification.

Would you please provide a table which reflects total funding provided to date and projected to be required for the Budget and Financial Information System, including funding provided for the system in years prior to fiscal year 1991 and the appropriations accounts under which funds have been provided to date and will be required in future fiscal years to fully fund this system.

Response:

Estimated costs for the budget and financial system that are appropriated to OMB, or have been requested to be appropriated to OMB, are identified below.

	<u>\$ in thousands</u>
1988	165
1989	59
1990	500
1991	2,000
1992	2,142
1993	1,175
1994	930
	6,971

The Office of Administration is also requesting \$4.9 million in 1991 that includes \$4.4 million for a new mainframe computer.

The replacement computer will be better suited to the new directions OMB is pursuing on information systems but is not being requested solely to meet new budget systems requirements. The Office of Administration is also estimating that they will need about a million dollars in FY 1992-1994 to support OMB's plans.

Sen. Domenici:

The budget justification indicates that the first phase of the Budget and Financial Information System is now complete. Specifically, what work has been or will be accomplished with the \$800,000 appropriated to date for the Budget and Financial Information System (i.e., the \$50,000 OMB made available for this project in FY 1989, along with the \$500,000 appropriated to OMB and the \$250,000 appropriated to the Office of Administration for this project in FY 1990)?

Response:

As of July 1990, the following work has been or will be accomplished with funding provided to date:

- o Procurement of a relational database management system by the Office of Administration by September of this year.

- o Development of a capability to upload/download data from the Budget Preparation System to a personal computer, which was tested in the development of OMB's July Mid-Session Review of the 1991 budget.
- o Initial development of a "shadow data base" that will be used to test a restructuring of the budget data system on a pilot basis for the FY 1992 budget.
- o In addition, some ADP equipment has been purchased and is being used for testing and evaluating new production system components that will function together with a relational data base.

Sen. Domenici:

For fiscal year 1991, \$2 million is requested to complete the second phase and begin the third phase of the Budget and Financial Information System. Would you please describe the projects included in these phases of the project and the amount of funding required for each.

Response:

\$1.68 million will be used for systems development services and staff training. The remaining \$.32 million will be used primarily for small ADP equipment purchases that are not requested in the budget of the Office of Administration, including off-the-shelf software, and computer time sharing.

Tasks scheduled for FY 1991 will provide OMB analysts with the tools to make use of the larger mainframe computer requested in the budget of the Office of Administration. Examples of specific improvements include:

- o Continuing development of a common user interface that will provide OMB analysts with a uniform, simpler approach to accessing budget and financial information on the computer, including better linkage between agency budget offices and OMB's government-wide budget database. Currently, OMB users must learn different, complex approaches for different information requirements, limiting access to more than one system to a few expert users or to rote data entry functions.
- o Development of a capability for transmitting and verifying textual materials along with data through a mainframe computer, initially focused on facilitating the processing of agency budget preparation materials.
- o A comprehensive update of the automated structure used for preparing the budget to include a review of the program and financing schedules, the classification of accounts into mandatory and discretionary categories, and other related computer coding.

Each of these projects has several dimensions, requiring development, pilot testing and finally, full application. Improvements will be phased in over the next three years, beginning with the preparation of the 1992 budget.

Sen. Domenici:

In fiscal year 1989, \$1 million was appropriated in the "Expenses of Management Improvement" account for OMB's word processing system. Last year, OMB indicated that it planned to obligate the full \$1 million provided by the end of fiscal year 1990. The fiscal year budget justification indicates two different plans for the expenditure of this \$1 million in fiscal year 1990. The "Summary of ADP Projects" on page 4 indicates the availability of \$740,000 of the \$1 million appropriated in FY 1989 for Office Automation in fiscal year 1990, \$455,000 of which is for equipment. Page 7 of the budget justification indicates the planned expenditure of all but \$78,000 of the \$1 million appropriated, and indicates that \$637,000 will be spent on equipment in fiscal year 1990. Which is the correct amount for equipment, \$455,000 or \$637,000? If \$637,000 is the correct amount, would you please make the necessary adjustments to the "Summary of ADP Systems Projects" included in the budget justification materials and submit a corrected copy of this table for the record?

Response:

Page four, in the 1991 OMB budget justification under the "Summary of ADP projects" accurately reflects the estimated cost for equipment for Office Automation in 1990 as \$455,000. In FY 1989, OMB expended \$182,000 in the "Expenses of Management Improvement" account. The chart on page seven reflects the combination of \$455,000 in 1990 and \$182,000 in 1989 for a total Office Automation line estimate of \$637,000.

Sen. Domenici:

Funding of \$757,000 is requested for fiscal year 1991 for office automation and equipment. Would you please provide a list of the specific improvements planned for fiscal year 1991 and the estimated cost of each?

Response:

Following is a review of the OMB five year plan as described in the budget submission for FY 1991.

(dollars in thousands)

<u>Improvement</u>	<u>dollars</u>
1. OIRA systems improvements: This will provide hardware and software related to the upgrade of data processing support Specifically for OIRA.	\$100
2. Secure system:	120

This funding will expand the secure network started in FY 1990. Includes tempest equipment and software suitable for network processing.

3. Management/Non Secure System: 262
This will enlarge the non-secure system started in FY 1990 from the initial 200 to over 400 staff. This buys the network components and related software to run a computer network.
4. Equipment: 275
These funds will continue the cycle of building a personal computer strategy for decentralized processing. This includes tempest printers and computers for the secure system as well as standard personal computers and printers for the non-secure network secure system.

\$757

- Sen. Domenici: The fiscal year 1991 budget justification indicates that the total cost of planned office automation systems and equipment (FY 90-94) is \$2.845 million. Is this a fairly firm estimate of the total cost to complete this automation effort? If not, what is the maximum amount that may be required?
- Response: Based on known technology and the trends within the organization, OMB can meet the goal of upgrading the office automation systems and equipment using the sums to be requested over the five year period.
- Sen. Domenici: The budget justification reflects a total reduction of \$577,000 in funds appropriated for OMB for fiscal year 1990 pursuant to P.L. 99-177. Would you please explain how OMB applied the sequester to each of the budget items contained in the fiscal year 1990 budget justification presented to this Subcommittee in support of a fiscal year 1990 appropriation level of \$44.894 million. A comparison of the fiscal year 1990 amounts for each program activity and object class, as shown in the fiscal year 1991 budget justification, to those contained in the original fiscal year 1990 budget justification indicates that funding for some of these budget items decreased, while funding for others increased or remains unchanged.
- Response: Each program, project or activity (PPA) was reduced by the 1990 GRH sequester of 1.4 percent. OMB subsequently redistributed resources among program activities.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

Sen. Domenici:

We are aware that the Drug Enforcement Administration is seeking to expand its training capacity and that at OMB's urging, the Department of Justice and the Department of the Treasury have agreed to a joint study to determine the best means of achieving DEA's training requirements, that is, whether the DEA should utilize the Federal Law Enforcement Training Center or proceed with its original plans to construct a new training facility at Quantico, Virginia. As you probably know, this Subcommittee has been committed to the concept of consolidated government-wide law enforcement training provided by the Federal Law Enforcement Training Center. It is our belief that a single-interagency training organization promotes the highest quality of training at the lowest cost to the American taxpayer. Can you tell us whether the Departments of Justice and Treasury have agreed on the scope of the study to be undertaken and the time frame for completing that study? If so, what has been agreed to? If not, when will work on this study begin?

Response:

Justice and Treasury have agreed to do a joint study on the benefits and costs of alternative sites for a new DEA training facility. An initial meeting on the study took place in late March. Treasury and Justice have exchanged proposals on a study agenda. To lead the study effort, the Treasury Department has designated David Nummy, Deputy Assistant Secretary for Finance and Management, and DOJ has designated Robert Diegelman, Director of Management and Planning Staff. The principals met, along with officials of FLETC, DEA and the FBI Academy on May 17th to begin planning. They are in the process of developing a mutually agreeable study agenda. Expected completion date for a draft study is late October and final recommendations will be included in the President's FY 1992 Budget.

Sen. Domenici:

What recommendations has OMB made as to the specific issues to be addressed by this study?

Response:

OMB has made various recommendations regarding the scope of the study, including: benefit/cost issues, training capacities of various site options and agencies' training requirements.

Sen. Domenici:

Is OMB participating in this study? If not, why?

Response:

OMB initiated this study proposal. We have also made various recommendations regarding the scope of the study. While neither Justice nor Treasury has asked OMB to participate in the data collection and analysis phase of the study effort, we intend to monitor progress closely over the summer.

U.S. Postal Service Issues

Sen. Domenici:

The Administration has submitted a legislative proposal, the "Postage Rate Reform Act of 1990," to terminate eligibility for special reduced mail rates for: (1) second class nonprofit mail with advertising content of 10 percent or more (estimated to save \$27 million); (2) third-class nonprofit mail containing commercial advertising (estimated to save \$22 million); (3) fourth-class mail sent by profit-making publishers (estimated to save \$1 million); (4) "education" mail sent by organizations which do not maintain a teacher/student relationship (estimated to save \$42 million); and (5) political advocacy mail (estimated to save \$20 million). Would you please explain the rationale for the Administration's proposal to terminate special reduced mail rates for each of these mailers, including why each is considered to be an abuse of the reduced postage rate program for charitable and benevolent organizations and how the savings estimated to be achieved in fiscal year 1991 from each of the five reforms proposed was calculated.

Response:

Taxpayers are unintentionally subsidizing political advocacy mail, prestigious professional trade associations, very profitable business seminar companies, and advertisers who "piggy back" on reduced rate mail sent by universities and other nonprofit organizations (i.e., travel agents, and insurance companies).

Out of concern for these type of abuses, Congress directed the Postal Rate Commission (PRC) to identify ways to reform the Revenue Forgone appropriation (which reimburses Postal Service for the reduced postage rates paid by these preferred mailers). The Administration's proposal is patterned on the PRC's 1986 Study (updated last year for Senator Stevens) which identified numerous abuses of current taxpayer-supported reduced postage subsidies.

Examples of abuses to be terminated (1991 savings in parenthesis):

- o 2nd and 3rd class mail with high commercial advertising content (\$63M).
- Taxpayers would be relieved of paying postage for catalogs selling \$200.00 crystal otters, \$30.00 "40 Never Looked So Good" sweat shirts, or \$300.00 18k gold personalized nameplates.
- Termination of reduced rates for nonprofit organizations offering affinity Visa or Mastercard credit cards bearing the sponsoring organization's logo when the credit

cards are sponsored by for-profit banks. A recent Postal Inspection Service audit identified over 31 million pieces of mail sent pursuant to this type of unauthorized cooperative mailing.

- o Educational mail sent by organizations which do not maintain a teacher/student relationship (\$26M).

Sen. Domenici:

The Administration also proposes to establish a separate cost-based Federal Government mail subclass to recognize the governments efficiency in preparing mail. This proposal is projected to save the government \$220 million per year in postage costs. When the Postmaster General testified before this Subcommittee in early April, he indicated that it is not correct to say that Federal Government mail is so well prepared and so efficient and so uniform that it should receive an additional discount. He indicated that the various federal departments processed their mail the way the private sector does, the Federal Government would already enjoy \$200 million or a little more in the way of savings. What has OMB done to encourage federal departments and agencies to avail themselves of the discounts now offered by the Postal Service to achieve savings in federal postage costs?

Response:

OMB staff has met with senior Postal Service management to identify opportunities for reducing government mailers' costs. Target areas include curtailment of overnight shipments, greater use of presort and zip+4 discounts, reduced use of large envelopes, and a shift to lower postage rate classes. GAO roughly estimates that such opportunities could lower government mail costs by \$48-73 million annually, based on current rates.

Although the Federal Records Management Amendments of 1976 assigned GSA government-wide leadership for mail management, OMB has been encouraging several of the largest individual government mailers including IRS and FMS to purchase equipment that will make their mail more machine compatible. The pending postal rate case proposes to double discounts for mail that reduces postal labor costs--carrier route presorted and prebarcoded mail.

Pressing Postal Service to publish implementation dates planned for wide area prebarcoding discounts is a recent example of OMB's direct involvement in this area. Several agencies had complained to OMB that Postal Service had refused to provide these dates which agencies need to budget for the purchase of necessary equipment to capture these discounts. After several discussions, Postal Service has now agreed to prepare a

schedule (based on current assumptions) that will assist the agencies in planning for these discounts.

OMB will continue to work with agencies to assure rapid handling and accurate delivery of government mail at the lowest possible cost.

Sen. Domenici:

Would you please explain the rationale for establishing a separate Federal Government mail subclass and how this would reduce the Federal Government's postage costs by \$220 million annually?

Response:

The budget proposes to recognize the federal government's efficiency in preparing low-handling cost mail by establishing separate cost-based government postage rates. On average, non-government mailers overhead charge is 60% of their direct cost for first-class mail. The Federal Government pays 100%. Over 80% of government mail is first class.

Government rates would be based on actual direct cost plus overhead charges equal to average overhead rates for comparable classes for commercial and individual mail. The Federal Government would no longer pay a disproportionate share of business and personal mailer's postage costs.

The savings were calculated by identifying the difference between overhead allocated by the Postal Service to government mail and the overhead for similar classes of mail times government's mail attributable cost and projected volume.

Sen. Domenici:

The Postal Service has indicated to this Subcommittee that the Administration's proposal to establish a separate Federal Government mail subclass would involve several complications: (1) it would be complex to administer since the Postal Service would have to develop a complete separate schedule of rates for the Federal Government; (2) separate rates for government mail might be viewed as discriminatory by other mailers able to justify being granted lower rates based on the same rationale; and (3) any revenue losses from government mail would have to be recovered through higher rates for other mail categories. What is your response to each of the problems with this proposal raised by the Postal Service?

Response:

Administering government mail rates should be simple. Detail postal zone and weight rates are now computer generated. It is the responsibility of the mailer not the Postal Service to identify and prepay all postage. Generally, postal clerks verify postage on a limited sampling basis simply by using a computerized scale.

Reductions in overhead charges for government mail will increase other mailers postage charges because the government is currently paying a disproportionate share of these costs. Low cost mailers subsidize high cost mailers because Postal Service charges average cost for uniform service.

In the long term, it may be appropriate to establish similar treatment for other large volume, low cost mailers. The current proposal, however, is limited to government mail. Postal Service does not collect cost and revenue data for individual commercial mailers, as they do for government mail, that allow us to determine if they are allocated excess overhead charges.

FEDERAL PAY REFORM

Sen. Domenici:

In addition to the 3.5 percent across-the-board pay increase, the Administration calls for interim pay relief measures beginning in fiscal year 1991, leading to a long-term restructuring of the federal pay system. These include geographic pay differentials of up to 8 percent for federal workers in three metropolitan areas; a 5 percent increase in starting salaries nationwide for entry-level occupations; and several new or expanded flexibilities to recruit, retain or relocated employees in certain occupational areas.

The fiscal year 1991 budget, at least for the agencies and activities under the jurisdiction to this Subcommittee, includes no additional funding to implement the interim pay relief measures proposed by the Administration. What is fiscal year 1991 government-wide cost of implementing each of the interim pay relief measures proposed?

Response:

The estimated government-wide cost of the interim pay reform measures included in the President's budget is \$328 million for FY 1991. This cost estimate assumes \$240 million for cost differentials in New York, Los Angeles, and San Francisco, \$46 million for higher entry level salaries for college graduates, and \$42 million for recruitment and retention bonuses.

Sen. Domenici:

How can agencies be expected to absorb these costs? The fiscal year 1991 budget already requires agencies to absorb 50 percent of the cost of the proposed 3.5 percent pay raise and to absorb other mandatory pay cost increases.

Response:

As described above, agencies are in a position to take a number of actions to offset increased pay costs. Obviously, this policy involves tough choices, but the Nation's fiscal situation demands such measures.

Sen. Domenici: What is the estimated government-wide cost of full implementation of the pay reform proposal submitted by the Administration?

Response: Beyond the \$328 million cost in FY 1991 of the initial reforms, we estimate that the total cost of the Administration's pay reform legislation will be \$3.6 billion between FY 1992 and FY 1995. During our Mid-session Review of the budget, we established a government-wide pay allowance that in the aggregate would provide net funding of \$1.8 billion, with the other \$1.8 billion to be offset in other, non-pay accounts.

Federal Building Acquisitions

Sen. Domenici: OMB and GSA reached agreement last summer that 21 projects, having an estimated total cost of \$3 billion, are needed to meet the Federal Government's space needs in the fiscal year 1991 to 1993 period. Can you please tell us how these 21 projects were selected out of the universe of requirements reviewed by the GSA/OMB task force?

Response: The proposed projects were developed from a list of long-term known requirements at the time the study was developed. These projects had achieved some level of internal or external approval. Together, the projects constituted a major new construction program that would: (1) replace expiring leases; (2) provide for selected known agency expansion requirements; and (3) result in long-term economic benefit to the Government.

It is important to realize that these 21 projects represented known space requirements at a certain "snapshot in time," in this case September 1989. As the space needs of GSA's client agencies change, and as those changing needs are identified to GSA through the submission of space requests, the total value of known requirements will change as well.

Sen. Domenici: How did GSA and OMB determine that there would be an estimated \$2.5 billion shortfall in Federal Buildings Fund revenues to meet the needs identified? What assumptions were made as to the other requirements of the Fund over the 1991 to 1993 period to reach this determination?

Response: GSA and OMB projected the revenues of the Federal Buildings Fund and estimated the expenditures for operating expenses, installment acquisition payments, and repairs and alternations for 1991 through 1993. The cumulative surplus of \$500 million was insufficient to cover the \$3.0 billion cost of the known requirements.

The revenues of the Fund were projected assuming a pass through of 25 percent of the CPI, reappraisals every five years, and

income from expansion space that would be delivered.

Operating expenses were projected assuming current service levels except for the Rental of Space activity, where the projection was based on current services plus net increases for expansion space based on historical trends and the impact of expiring leases.

The Repairs and Alterations program was projected by utilizing current services estimates of \$250 million for minor repairs and alterations and approximately \$300 million for the line-item program. These minimum amounts were determined to be necessary for GSA to maintain adequate progress in the ongoing Health and Safety and inventory modernization programs.

Sen. Domenici:

How many additional construction projects are needed to meet the Federal Government's space needs through the year 2000? What is the estimated total cost of those projects and what is the shortfall in Federal Buildings Fund revenues to meet these needs?

Response:

No estimates for the year 2000 are presently available. However, GSA is currently developing a five-year capital investment plan. GSA has also initiated efforts to enhance its long-term capital investment planning.

Sen. Domenici:

Mr. Diefenderfer, you have outlined OMB's scoring policy with respect to long-term building lease and lease/purchase arrangements in an April 30, 1989, letter (attached) sent to both me and the Chairman. This letter indicates that although OMB will apply this scoring in the Mid-Session review to previously-authorized projects, Congress need not take any additional action to fund these projects and you plan to proceed with them. I believe that basically satisfies our concerns with respect to the applicability of OMB's new scoring rule to previously-authorized projects, however, I would like to seek a couple clarifications on this.

Lease-purchase authority was provided for construction of the EPA headquarters building in the fiscal year 1990 Treasury, Postal Service, and General Government Appropriations Act. I note that the project is included as a fiscal year 1992 line-item project in the amendment to the fiscal year 1991 budget submitted by the Administration. Why isn't this project being treated like the others, as a previously-authorized project requiring no additional action by the Congress.

Response:

The April 30th letter indicated that the Budget and Budget amendment included full funding for 21 projects that a joint OMB/GSA study identified as appropriate for direct construction. This list included the EPA headquarters (even though it had been previously authorized for lease/purchase) and, therefore, funds were identified for this project in the Budget amendment.

LETTER FROM WILLIAM M. DIEFENDERFER III, DEPUTY DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

April 30, 1990

Honorable Pete V. Domenici
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator Domenici:

The Administration is very concerned about the acquisition of buildings necessary to meet the Government's needs, and the financing of these buildings in the most economical way for the Government. After a thorough evaluation of the Federal Government's needs for additional buildings and the various methods to finance these needed buildings, the Administration took two important actions that reflect our concern.

First, we proposed in amendments to the FY 1991 Budget the direct construction of 21 projects that had been identified in a joint GSA/OMB study that was completed last summer. Second, the FY 1991 Budget scored certain existing private financing arrangements that were based on the Federal Government's unconditional lease/purchase of the buildings in the same manner that we score any other Government purchase. The budget accounting of these lease/purchase arrangements, which are in essence just another way for the Government to acquire buildings, removed any scoring advantage that this more costly financing mechanism may have had relative to direct Federal construction.

I understand that our staffs have discussed the scoring of long-term building lease and lease/purchase arrangements, particularly as it relates to a number of projects on which Congress had previously acted. This letter is to confirm the scoring outlined in those discussions.

- o OMB will score budget authority up front for the full construction and financing costs for any long-term, capital building lease or lease-purchase, in the year that Congress acts.
- In addition, as was done for the Archives and Judiciary projects in the FY 1991 Budget, OMB will score outlays up front for any project financed through an arrangement that removes all financial risks from the project's developers and/or investors. These outlays will be scored to reflect the buildings construction expenses. If the legislation providing authority to acquire a building by lease clearly requires private risk, outlays would be scored over the life of the agreement. Although these financing

arrangements are often very complex, the explicit or implicit obligation of the Federal Government to make lease payments is the most important financial characteristic that OMB will review to determine the level of risk involved.

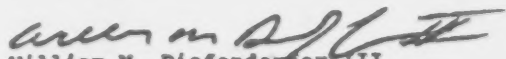
OMB will also consider other characteristics in evaluating the level of private sector risk in a project. These include whether the project is constructed exclusively for the Government; whether it is built on Government-owned land; whether the project is of net benefit to the Government; and whether it is built to specific Government requirements.

- o Although OMB will apply this scoring in the Mid-Session Review to the ICTC project and eight other previously-approved lease/purchase projects, Congress need not take any additional action to fund these projects and we plan to proceed with this needed construction.

With your support, the resources for the 21 needed projects can be found. In addition, I am confident that we can work together to use direct construction -- the least costly mechanism available -- to provide for the future acquisition of buildings for the Government.

In testimony before the Senate Committee on Environment and Public Works, Subcommittee on Water Resources, Transportation and Infrastructure, I promised an OMB review of existing financing arrangements for the Government's purchase of buildings. That review is ongoing. I promised to share the results of that review with Chairman Moynihan's subcommittee and would do so with your subcommittees if you so desire.

Cordially,


William M. Dieffenber III
Deputy Director

Sen. Domenici:

The fiscal year 1991 budget justification for the National Archives and Records Administration indicates that "appropriations of approximately \$29 million are required, beginning in 1994, for 26 years, in order to make semi-annual payments to the certificate holders" for construction of the Archives II facility. In telling us that Congress need not take any additional action to fund previously-authorized projects, how will the payments to certificate holders required to be made beginning in 1994 for the Archives II facility be reflected in the budget?

Response:

Budget authority was recorded in 1989 for the principal of the borrowing financing the construction of the Archives' building. Appropriations will be required to make interest payments and to repay the debt beginning in 1994 because the Archives will have no source of income to make the payments. The portion of the appropriation used to repay principal will not be scored as budget authority or outlays. The budget authority and outlays for interest will be

recorded in the budget as incurred and expended.

Sen. Domenici:

With respect to OMB's scoring of long-term lease/lease-purchase arrangements in the future, the April 30th letter indicates the following:

"OMB will score budget authority up front for the full construction and financing costs for any long-term capital building lease or lease-purchase, in the year the Congress acts... In addition, ... OMB will score outlays up front for any project financed through an arrangement that removes all financial risks from the project's developers and/or investors ...if the legislation providing authority to acquire a building by lease clearly requires private risk, outlays would be scored over the life of the agreement ... the explicit or implicit obligation of the Federal Government to make lease payments is the most important financial characteristic that OMB will review to determine the level of risk involved."

Could you clarify for us what constitutes a "long-term capital building lease" which will require budget authority to be scored up front, at the time the project is authorized?

Response:

Long-term (capital) leases for the use of a building represent effective ownership by the Government. In these cases, it is assumed that no option to reduce the initial lease obligation will be exercised (e.g., an option to terminate a lease). Short-term (operating) leases will include either explicit or implicit rights that limit the liability of the Government. No assumptions will be made about options to increase the obligation.

A lease is defined as an operating lease if it meets the following criteria -- if not, it is a capital lease.

- o Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period;
- o All risks of ownership of the asset (e.g., financial responsibility for destruction or loss of the asset) should remain with the lessor, unless the Government is at fault for such losses;
- o The lease term does not exceed 75 percent of the estimated economic life of the asset;
- o The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease;

- o The asset is a general purpose asset, rather than for a special purpose of the Government. There is a private-sector market for the asset;
- o The project is not constructed on Government land; and
- o The lease does not contain a bargain-price purchase option.

Sen. Domenici:

What constitutes an arrangement that removes all financial risks from the project's developers and/or investors? What specific conditions have to be met?

Response:

Legislation and/or lease-purchase contracts that provide for the explicit guarantee by the Government of third party financing, or otherwise remove all risks of ownership from the lessor, will be scored equivalent to a Government purchase.

Sen. Domenici:

In writing language to provide authority to acquire a building by lease, what "magic" words or phrases would have to be used to meet the condition that private risk be required in order for outlays to be scored over the life of the agreement? How would the language be scored if it is ambiguous on the subject of private risk?

Response:

We would need to examine each contract to determine the amount of risk.

As stated in the April 30th letter, "... If the legislation providing authority to acquire a building by lease clearly requires private risk, outlays would be scored over the life of the agreement." Bills that are drafted in an ambiguous way would be scored as if financed by lease-purchase without substantial private risk. Outlays would be scored to reflect the expenses of the purchase or construction of the building.

Sen. Domenici:

The April 30th letter indicates that OMB will consider certain characteristics in evaluating the level of private risk in a project, including whether the project is constructed exclusively for the Federal Government; whether it is built on Government-owned land; whether it is of net benefit to the Government; and whether it is built to specific Government requirements.

Would you please explain these criteria more specifically. What factors determine whether the building is being built exclusively for the Federal Government? Does the building have to be built on land owned by the Federal Government; when might this not be a requirement? What do you mean by specific Government requirements? Will projects

constructed to Government specifications be considered leases even if these buildings are marketable as general office space? How do you measure "net benefit" to the Federal Government? What other criteria must be met that you haven't mentioned in the letter?

Response:

The answers to earlier questions attempt to provide more clarification as to the nature of the criteria. However, the criteria cannot be so explicit as to remove all ambiguity over their interpretation. Scoring rules are general statements that establish principles, as are budget concepts and budget accounting rules. The general principle for scoring is that obligations incurred (that result in immediate or future outlays by the Government) require budget authority. The general principle for scoring outlays is that disbursements by the Government, or by its agents, should be recorded as they occur.

Sen. Domenici:

Is the fiscal year 1991 request for the GSA Federal Buildings Funds sufficient to cover OMB scoring change relative to leases? If not, does this mean that your policy is to budget for the full value of leases in subsequent fiscal years or to prohibit everything but annual leases?

Response:

The 1991 request for GSA Federal Buildings Fund may not contain enough budget authority to cover the full obligations of the leases assumed in the request under the scoring principles outlined above which were developed over the last six months. Also, over the past six months, as a result of discussions with Congressional staff on the appropriate scoring for lease purchases, it has become clear that some agencies may not follow these principles for recording budget authority on multi-year agreements.

Further analysis is required to determine whether agencies are complying with current requirements. OMB will collect data from the agencies to determine the extent to which leases may be currently understated in the budget. It is our intention to fully reflect the budget authority requirements for new leases in the 1992 budget.

Sen. Domenici:

Would you please describe the different treatment of the Archives II facility and the Judicial Office Building in the President's fiscal year 1991 budget. For example, the Judicial Office Building is reflected as a separate "program and financing schedule" and the construction costs are shown as authority to borrow whereas the Archives II facility is not broken out and the construction costs are shown as budget authority.

Response:

The Judicial Office Building is presented in a separate budget account in the Architect of

the Capitol's section of the budget, consistent with the budget presentation of all major projects being constructed by the Architect of the Capitol. It was authorized by the Judiciary Office Building Development Act (P.L. 100-480). Costs of construction are financed by \$148.6 million of federally-guaranteed debt issued in 1989. This financing arrangement is substantially the same as direct Federal borrowing. It is scored as borrowing authority based on the authorizing legislation.

The Archives II facility was authorized by the Independent Agencies Appropriations Act, 1989. This Act authorized a construction contract for a facility on a site to be transferred to the Federal Government and payment out of annual appropriations over a period of thirty years. The project financing is federally-guaranteed, there is no risk to the contractor, and the project is scored the same as a direct Federal construction project. This budget authority is also shown as authority to borrow provided in an appropriations act. Thus, both projects are scored in the same way.

Sen. Domenici:

The Anti-Deficiency Act provides that the Federal Government cannot be involved in a contract or obligation for the payment of money before an appropriation is made "unless authorized by law". Would you please provide some specific examples of what falls under this "unless authorized by law" exception?

Response:

Two types of authority to enter into obligations before enactment of appropriations are contract authority and authority to borrow. These authorities are normally provided in authorization acts, but may also be provided by appropriations acts.

Contract authority permits obligations to be incurred but requires a subsequent appropriation or offsetting collections to pay the obligation. Programs that utilize contract authority include Foreign military sales, Guaranteed student loans, Federal-aid highways, Urban mass transportation discretionary grants, Grants-in-aid for airports, and Veterans compensation and pensions. The contract authority is scored at the time it first becomes available -- usually when it is authorized. The appropriation to liquidate contract authority is not scored.

Authority to borrow permits obligations to be incurred but requires funds to be borrowed to pay the obligation. Usually funds are borrowed from the Treasury, but in a few cases agencies may borrow directly from the public. Normally, authority to borrow, rather than contract authority, is authorized when the activity being financed is expected

to generate income (e.g., from user fees) that would then be available to repay the borrowing with interest. Programs that utilize authority to borrow include the Commodity Credit Corporation, several credit insurance programs of the Farmers Home Administration, various housing programs, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Postal Service, the Bonneville Power Administration, and Tennessee Valley Authority. Again, the authority to borrow is scored when it is provided. The appropriation to repay the amount borrowed is not scored.

Sen. Domenici: Would the new OMB scoring rule apply to the leased vehicles in the GSA interagency motor pool fleet, for example?

Response: While the rule was stated in connection with the construction of facilities, it would apply in like manner to similar transactions. OMB and GSA will investigate the circumstances associated with leased vehicles to determine if the current scoring of these transactions is appropriate.

Sen. Domenici: How would this new scoring rule affect the scoring of military family housing leases (801 Program) which I understand cover a period of 20 to 25 years and are now scored on an annual basis?

Response: Budget authority or other budgetary resources will be scored up front for all military family housing leases beginning with the 1992 budget to cover the full amount of the cost of the project except for imputed interest costs calculated at Treasury rates.

Sen. Domenici: Please provide for the record a list of all current federal purchases and leases which would not be scored differently under this new OMB rule.

Response: OMB has begun to collect data on the Federal purchases and leases that would need to be scored differently. We plan to reflect the proper scoring of leases in the 1992 budget.

CONCLUSION OF HEARINGS

Senator DeCONCINI. Thank you very much.

That concludes the hearings. The subcommittee will recess and reconvene at the call of the Chair.

[Whereupon, at 12:53 p.m., Wednesday, May 23, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on the Treasury, Postal Service, and General Government for inclusion in the record.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule separate hearings for nondepartmental witnesses.]

NATIONAL CUSTOMS BROKERS & FORWARDERS ASSOCIATION
OF AMERICA, INC.

LETTER FROM ARTHUR L. LITMAN, PRESIDENT

April 17, 1990

The Honorable Dennis DeConcini
Chairman
Senate Appropriations Subcommittee on
Treasury, Postal Service and General Government
190 Dirksen Senate Office Building
Washington, D.C. 20550

Dear Chairman DeConcini:

The National Customs Brokers and Forwarders Association of America (NCBFAA) is pleased to submit our comments for the record of hearings held by your Subcommittee on appropriations for the Customs Service.

NCBFAA is, of course, the national organization for America's customs brokers and freight forwarders. Our members serve as coordinators, consolidators and expeditors of international trade. As part of our responsibility, we interface directly with Customs as the importer's representative and agent in all matters. It is a unique relationship we share with Customs -- one of mutual dependency and mutual responsibility. And, it is a role we take very seriously, indeed.

As such, NCBFAA is very pleased with the new direction being taken at Customs by Commissioner Carol Hallett. The new commissioner is proving to be a dynamic leader for the agency, successfully redefining the agency's mission and redirecting the energies of its people.

At the same time, however, NCBFAA is very disturbed that the Administration once again is trying to cut the staffing levels for Customs commercial operations. We understand all about budget deficits and revenue shortfalls and we know Congress has a tough job in allocating scarce dollars. But we cannot comprehend reductions in an agency which actually produces revenues -- \$19 is generated for every dollar dedicated to commercial operations. Nor can we fathom the justification for cutbacks in Customs commercial services when these services are actually being underwritten by the importing community through the ad valorem user fee. Customs commercial services are amply paid for by the public and no cuts of any kind are merited.

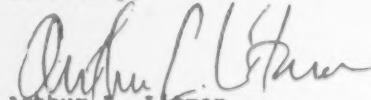
NCBFAA strongly believes that, far from cutting back in this area, additional resources must be devoted to Customs commercial operations. Customs simply must have adequate staffing for the Office of Regulations and Rulings so that the public can have timely access to Customs' interpretations and be in a position to comply with the law. Additional resources too must be given to the hiring and training of import specialists -- an essential component to facilitate compliance with the law and the expeditious movement of cargo. One suggestion that has surfaced within our association is to make an import specialist available at document analysis (DAU) sites. This would greatly expedite the frequent instances where import specialist review is required, but cannot be accomplished when Customs seeks to move in the opposite direction and decrease this valuable resource to the importing public.

In fact, the Administration is asking Congress to eliminate nearly 300 positions on the commercial side. Loyal Customs officials dutifully defend this OMB-dictated position, but their arguments ring hollow and we are not convinced. "Customs is working smarter" goes the party line, or "automation has enabled us to streamline our operations." While dedication and hard work can go a long way, it cannot make up for a shortage of trained experts to handle the massive volume of cargo crossing our borders each day. And although automation is a tremendous tool, permitting greater efficiencies, it will never eliminate the need for competent human beings who can guide importers through compliance and manage the machines that will expedite our transactions..

The fact remains that import specialist staffing has actually declined over the past 15 years, while during the same period formal entries tripled. And, adding to the burden, the role of Customs has become even more complex. The agency collects fees, taxes and duties in over 300 ports and numerous other locations every single day. At the same time, Customs has the job of enforcing and administering over 400 laws for 40 some agencies, as well as the responsibility for screening passengers, cargo and conveyances for illegal drugs.

To fulfill these demanding and often contradictory roles in today's global marketplace is a tremendous challenge -- one which cannot be shortchanged. We therefore urge this Subcommittee to ensure full and adequate funding for Customs commercial operations and restore the Administration's cuts.

Sincerely,


Arthur L. Litman
President

AMERICAN BAR ASSOCIATION

STATEMENT OF JAMES P. HOLDEN, CHAIRMAN,
TAXATION SECTION

Mr. Chairman and Members of the Subcommittee:

My name is James P. Holden. I chair the Taxation Section of the American Bar Association. I submit this statement on behalf of the American Bar Association at the request of L. Stanley Chauvin, Jr., President of the Association. On behalf of the 27,300 member of the Tax Section and the 375,000 members of the American Bar Association, I am pleased to offer you our views on the budget of the Internal Revenue Service for FY 1991.

Overview

The American Bar Association and the Tax Section have long supported the position that good government requires adequate funding of the Internal Revenue Service. For most of the last decade, we have supported additional funding for the Internal Revenue Service in light of its continually increasing workload. For the last two fiscal years, 1989 and 1990, the Internal Revenue Service has been severely underfunded.

The Administration's 1991 budget recommendation for the Internal Revenue Service dramatically reverses this trend. It proposes a major increase in the IRS appropriation. We strongly support this recommendation and urge that it be seen as the first step in a long-term investment in the health of the Nation's tax system.

As massive deficits continue to overhang our economy, we all must remember that the Internal Revenue Service is, after all, a critically important resource for the federal government. With adequate funding, it can take important steps toward taxpayer understanding, acceptance and compliance with the tax system, and it can, of course, pursue effective enforcement measures. The sustained viability of our tax system, root and branch, compels actions like adoption of the newly proposed IRS funding level and future efforts in the same direction.

Importance of Funding the Tax System

In fiscal 1991 the IRS will collect \$1.1 trillion net after paying refunds. With this revenue our country pays for benefits that all of us enjoy in this country and around the world. In order for our tax system to continue to function properly, our citizens must be both willing and able to comply with their tax obligations. This, in turn, requires that IRS be adequately funded to assist those who are trying to comply and to detect those who have failed to comply. A well-funded Internal Revenue Service is the key to assuring that taxpayers will remain willing and able to comply, and therefore to assuring the integrity of our tax system.

The Administration's 1991 budget proposes a \$635.2 million increase for the Internal Revenue Service and an additional 3,667 average positions for fiscal 1991. With this support added to its current funding, the Internal Revenue Service has stated that it will:

- * process 192 million tax returns and issue 81 million refunds,
- * assist over 80 million taxpayers through direct assistance, including toll-free telephone service and taxpayer education activities,
- * improve its tax enforcement capability to reduce accounts receivable and increase the number of examinations of corporate and individual tax returns, and
- * enhance its drug enforcement capability.

These objectives represent a balance between assistance to taxpayers who are trying to comply and detection of those who have failed to comply.

The American Bar Association and the Taxation Section support this balance between taxpayer assistance and enhanced compliance. On taxpayer assistance, since 1976 our Low-Income Taxpayer Committee has sponsored a program to provide voluntary assistance

to low-income taxpayers in preparing their federal income tax returns. Our Committee, in conjunction with the Law Student Division of the ABA, has worked with the Internal Revenue Service Volunteer Income Tax Assistance Program (VITA) to establish VITA programs in as many law schools as possible across the country in order to assist low-income taxpayers in preparing their tax returns. For the last several years, almost one-half of the ABA-accredited law schools nationwide have participated in the VITA program. In recent years, the total has approached 100 law schools. We are proud of the work that we are doing with the IRS in expanding the VITA program to assist taxpayers who are trying to comply with their tax obligations.

On enhanced compliance, several committees of the Tax Section have been active in working with the Internal Revenue Service to improve the compliance and enforcement programs of the IRS. Most recently, representatives of several of our committees worked with Members and staff of Congress, as well as the IRS and Treasury and representatives of other professional organizations, to simplify and make more effective the civil tax penalties that may be applicable when taxpayers fail to comply with their tax obligations. We were pleased to be able to participate in the legislation that was passed last fall to reform the civil tax penalty system.

Modernization of IRS Computer and Information Systems

The Administration's 1991 budget allocates additional funds to the multi-year effort by the IRS to modernize its computers and information systems. This effort is one of the most -- if not the most -- important part of the IRS budget. It has been only five years since the computer failures of the 1985 filing season of the IRS. It is well known that IRS continues to use a computer systems architecture that was designed in the 1950's and built in the 1960's. As such, the system has been described as an "ice-age" computer system, given the improvements that have occurred in information system technology over the last thirty years.

One of the complaints we tax practitioners hear most often from individual taxpayers -- and one which we suspect Members of Congress hear from their constituents -- is that taxpayers get persistent computer-generated notices and warnings from the IRS despite increasingly frustrating efforts to explain to the IRS computers that they have made a mistake. The present technology has proved exceedingly difficult to convince. This annoying facet of American life is of course, at bottom, a problem generated by obsolete computers.

It is imperative that the IRS computer system be updated, and the proposed 1991 budget increase of \$146 million for that purpose is a significant first step in the process. It is a step that deserves your support. The goal of the IRS systems modernization effort is to create a system that will enable the IRS to provide taxpayers with the quality of service to which they are entitled and to improve the productivity and efficiency of its compliance activities.

At the invitation of the Internal Revenue Service, representatives of the Taxation Section and others have met with IRS officials to become better acquainted with IRS plans to modernize its computers and to make suggestions about changes to enhance the quality of service to taxpayers and their representatives that the new system will provide. We urge your continued support of this important IRS program.

IRS Management Integrity

The President's 1991 budget also provides a \$4 million increase in the resources available to the IRS Inspection function and to fund the Treasury Inspector General for oversight of IRS management integrity. This too is an important program which deserves your support. As indicated by the mission statement of the IRS, in earning the respect and confidence of the American public, which is so vital to the proper functioning of our self-assessment tax system, it is important for the public to believe that the IRS operates with utmost integrity not only in dealing

with taxpayers but also in its internal functioning. Recent allegations have suggested that it is appropriate for the IRS and others outside the IRS with oversight responsibilities to take a more careful look at the IRS systems and procedures to insure the soundness of its integrity programs, particularly those relating to IRS managers and executives.

The Internal Revenue Service has responded by outlining an ambitious program for internal review and changes in its inspection program. It has, moreover, announced its support of additional, outside review of its integrity programs and procedures by the Inspector General of the Treasury Department and by an independent, Private Sector Review Panel of which I am the Chair. The Tax Section agrees that it is important to assure the American public of the soundness of the integrity programs at IRS, and we, therefore, urge your support of the President's proposed increase.

The Need for Stability in IRS Funding

As important as it is for this Subcommittee to support the proposed 1991 budget for the IRS, it is even more important that you view the 1991 increase as the first step in a long-term program to fund the Internal Revenue Service consistently and adequately to administer our Nation's tax system. During the past decade, it was not until the disastrous 1985 filing season that the IRS received additional funding to provide adequate resources to administer our tax system. And after several years of additional funding, during the last two years the IRS appropriation has not been nearly adequate to permit the agency to deal efficiently and effectively with its increasing workload.

For example, the ever expanding complexity of the federal income tax law is of increasing concern to us and, we are sure, to the Subcommittee. The ABA Tax Section and the AICPA completed a two-day invitational conference in January on this subject. Speakers and participants came from Congressional staffs, both present and former, Treasury, the Internal Revenue Service, and

the tax practice community. The conference produced a broad consensus from all corners that complexity is a severe problem for the income tax system, and while the increasing complexity is neither easily nor readily resolved, it is a problem that is worth hard, continuing efforts at resolution.

Complexity in the law leads to complexity of administrative interpretation by the IRS, difficulty in providing simple tax forms and instructions to taxpayers, and a pervasive and seriously unfortunate lack of understanding of even the simplest parts of the law by taxpayers generally, their lawyers, their accountants and return preparers. Our system is, after all, one of self-assessment and voluntary compliance. Both rest, at bottom, on an understandable tax law.

On February 7, I testified on behalf of the ABA and Tax Section before the Ways and Means Committee on the 1986 Tax Reform Act. Generally, I stated that the American Bar Association and the Tax Section continue to support the fundamental objectives of the 1986 Act -- broadening of the tax base and reduction of income tax rates. However, I expressed concern about the fact that the 1986 Act is only one of 153 laws that have been passed over the last 15 years changing the tax rules with which the American public and its advisers must deal. I expressed concern about the magnitude and velocity of annual tax changes which, if unchecked, may affect the ability and willingness of the public to comply with their tax obligations and the ability of the IRS to administer the tax system effectively. Similarly, on March 23 I testified before Senator Pryor's Subcommittee of the Senate Finance Committee on the excruciating complexity of the laws governing employee benefit plans.

Even with efforts to reduce complexity and to preserve as much stability as possible in the tax law, however, we recognize that, in today's world, there are still going to be tax changes. Inevitably, therefore, the demands upon the IRS will continue and will increase. To meet these increased demands, it is important

that the IRS be consistently and adequately funded as these changes take place.

In this connection, despite legislation last fall that over time will increase salaries that the IRS is able to offer to attract and retain qualified personnel, we continue to be concerned about the severely low levels of public sector pay. The IRS competes for employees with private organizations requiring accounting, legal and computer skills. Under present circumstances, it is doubtless unrealistic to expect the IRS pay scales to match -- or even to approximate -- those of major business corporations, accounting firms, and law firms. But matching may well be unnecessary to maintain a highly talented and capable work-force at the IRS: a great many people in our society find the stimulation and rewards of public service well worth significant differences in dollar compensation. They do, however, need enough to pay to meet the growing costs of living in our society -- rapidly escalating housing costs, the continually mounting expense of putting one's children through college, and the many similarly increasing charges that cannot be met with psychic income.

We urge your determined attention to, and support of measures to meet this very real and very serious problem.

Conclusion

In sum, we urge this Subcommittee to act to meet these pressing problems by:

1. Supporting the proposed 1991 budget to provide the IRS with the resources needed to improve its service and assistance to taxpayers who are trying to comply and to deal with taxpayers who are not complying, to permit the IRS to modernize its computers and information systems, and to assure the soundness of the IRS integrity problems;

2. Working with your colleagues on the Finance Committee to minimize the change and complexity in the tax laws with which taxpayers, their advisers and the IRS must deal;
3. Supporting continued efforts to provide sufficient levels of compensation to enable the IRS to recruit and retain the qualified, professional employees who are essential to proper functioning of this very important national resource; and
4. Treating the 1991 budget increase as the first step in a process which must be steadily sustained in future years.

The American Bar Association and the Taxation Section believe that if these actions are not taken, the losers will be the American public and ultimately the American society which our tax system supports. Conversely, if these actions are taken, the winners will be your constituents and our way of life in this country which our tax dollars help maintain.

The Taxation Section stands ready to assist you and your staff wherever and whenever appropriate. Our goals are to maintain the essential soundness of our tax system, to work to improve it, and to educate our members about it. We look forward to working with the Subcommittee to those ends.

STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. Chairman and Members of the Subcommittee, the American Association of Retired Persons appreciates the opportunity to submit testimony for your hearing record regarding FY1991 appropriations. Our statement will address funding for the Tax Counseling for the Elderly (TCE) program and appropriations for revenue foregone.

TAX COUNSELING FOR THE ELDERLY

The Association recommends that TCE be funded, at a minimum, at \$3 million for fiscal year 1991. This is the same amount as the fiscal year 1990 appropriation and the Administration's fiscal year 1991 budget request. The value of TCE has been amply demonstrated over the years. It is a program which benefits both the Internal Revenue Service (IRS) and elderly taxpayers.

Benefits for IRS

TCE improves taxpayer compliance measurably for the IRS in numerous ways:

- o TCE volunteers help to ensure that more tax returns are prepared completely and accurately.
- o TCE counselors inform taxpayers about their obligations and assist them in fulfilling their responsibilities.
- o Program personnel keep elderly taxpayers abreast of changes in the law which will affect them.

TCE and AARP's Tax-Aide program have provided other valuable assistance to the IRS. For example, the IRS is increasingly turning to Tax-Aide counselors to provide instruction for other TCE counselors to ensure that they are fully conversant with the tax law. In fact, most Tax-Aide counselors are now trained by Tax-Aide instructors, but all continue to be certified by IRS. This practice has produced better service for older taxpayers, and has enabled IRS personnel, who often are spread very thin, to perform other services on behalf the agency.

IRS has also called upon Tax-Aide and other TCE programs with increasing frequency to assist elderly taxpayers, largely because budgetary constraints have limited the agency's capacity to respond directly to public inquiries. Further, TCE has enabled IRS to serve more effectively hard-to-reach taxpayers, such as elderly minorities, the rural aged, and older persons residing in nursing homes or senior citizen housing. AARP's Tax-Aide program, in particular, has made a concerted and successful effort to reach these individuals.

Benefits to Older Taxpayers

TCE was created, in large part, because many older Americans encounter difficulty in preparing their tax returns. Form 1040 and its accompanying schedules can be overwhelming to some aged persons, and many simply do not understand the tax law. Moreover, when they retire or contemplate retirement, the entire tax landscape can change dramatically.

In short, a large number of elderly persons need assistance in preparing their returns, not only to ensure accuracy, but also to make certain that they claim all benefits to which they are entitled. Many also need help to assure that they comply fully with the new rules which may affect them. For example, much of the elderly's taxable income may not be subject to federal withholding. Consequently, older Americans frequently discover that they must file quarterly estimated payments to comply with

the tax law. These computations can baffle even more sophisticated aged taxpayers, particularly when they have no prior experience in making estimated payments.

Other provisions in the Internal Revenue Code can pose formidable problems, especially for unsuspecting widows who may be preparing a tax return for the first time. One noteworthy example is the computation of the taxable portion of a contributory pension. This calculation requires the use of life expectancy and annuity tables, documents which most persons either do not have or do not know how to obtain. Even if the information is available, the calculation can be so complex that most older Americans would find it difficult to complete.

The elderly's struggle with the Internal Revenue Code is further complicated by the fact that the tax law has undergone major changes in recent years. Many of the aged are not aware of these measures, and generally have a hard time keeping current with all the changes in the tax law -- legislative, judicial, and administrative -- which may impact them. Examples of recent changes which older Americans do not fully understand include:

- o The additional standard deduction for persons 65 or older who do not itemize their deductions;
- o The gradual phasing out of the deduction of personal interest, such as, for credit cards or auto loans;
- o The increase in the floor to 7.5 percent of adjusted gross income before taxpayers who itemize their deductions can claim medical and dental expenses; and
- o New rules for deducting contributions to Individual Retirement Accounts.

Over the years, the IRS has repeatedly emphasized that no taxpayer should pay more tax than legally required. Unfortunately, large numbers of older Americans overpay their taxes, frequently because they are not fully aware of available legal benefits in the tax law which can reduce their tax liability. This problem is intensified by a tax form that may seem like a labyrinth set with linguistic booby traps. TCE, though, can inform older taxpayers about available tax benefits and make certain they claim all legal deductions.

In conclusion, TCE and Tax-Aide have benefited our nation, the IRS, and low or moderate-income older Americans who receive competent and complete service at no charge. TCE has been an extraordinarily effective program which has solid support from the communities that the program serves and the elderly clients who are assisted.

Much of TCE's success is directly related to the support provided by this Subcommittee. We wish to thank you again for this backing.

REVENUE FOREGONE

In addition, the Association urges the Subcommittee to approve a revenue foregone appropriation which would maintain postal rates for nonprofit mailers at the current step 16 levels. The revised estimate of funds needed for this purpose is \$515.8 million, which takes into account the projected postal rate increase currently planned for early 1991.

Congress provided this subsidy in recognition that private, non-profit organizations complement government activities at all

levels -- federal, state and local. Indeed, the nonprofit sector often acts as a substitute when governmental units are unable to perform certain functions because of budgetary constraints. In many cases, educational, health, and other human services provided by nonprofit organizations enable recipients to live independently without any governmental assistance.

Many of these services would be sharply curtailed or eliminated if Congress did not provide adequate funding for the revenue foregone subsidy, and nonprofit mailers faced substantial increases in postal rates.

AARP strongly believes that it is sound and sensible policy to encourage private, nonprofit organizations to complement government activities and to fill in voids where service gaps exist. This rationale is even more compelling now because of recent federal spending cuts for social programs.

CONCLUSION

The Association appreciates the opportunity to present its views concerning these issues and urges the Subcommittee to recommend at least \$3 million for TCE and a sufficient amount (currently estimated at \$515.8 million) for the revenue foregone appropriation to maintain current postal rates for nonprofit mailers.

THE AMERICAN LEGION

STATEMENT OF SAMUEL J. WALSH, DEPUTY DIRECTOR, NATIONAL
LEGISLATIVE COMMISSION

Mr. Chairman and distinguished members of the Subcommittee on Treasury, Postal Service and General Government.

The American Legion is pleased to once again present its views and recommendations on the funding for the U.S. Customs Service and the Revenue Forgone postal subsidy. This is the eighth time in as many years that we have appeared before this subcommittee on the subject of postal appropriations and the fifth time that the Legion has supported sufficient funding to ensure that U.S. Customs Service's drug interdiction activities continue unabated.

The Fiscal Year 1991 administration proposal seeks \$2.4 billion for air, land, and maritime operations to combat drug smuggling. These programs, although funded across a broad range of federal accounts, serve not only to interdict drugs coming into our country, but in a broader sense also help secure our borders. The additional resources proposed in the President's budget acknowledges a commitment to eradicating the national blight brought on through this illicit drug trade. The American Legion urges Congress to appropriate the funds necessary to meet the administration's objectives.

The American Legion appreciates this subcommittee's continued support in providing funding for the Revenue Forgone subsidy for nonprofit activities. As you know, a wide range of community-based programs assisting communities and Americans in need are sponsored by nonprofit organizations. The American Legion and the American Legion Auxiliary contribute millions of dollars each year in ways most Americans are unaware. For example, this past year alone The American Legion contributed \$43 million for the benefit of America's children and youth, while donating another \$9 million to local charity campaigns. We processed more than 300,000 individual veterans claims and gave \$2 million in cash aid to veterans. We volunteered 1.2 million hours of service to veterans hospitals and 2.3 million hours to community service projects. Over 115,000 pints of blood were donated by Legionnaires. In addition nearly 40,000 young men and women participated in our Boys State and Girls State program, 10,000 more in our oratorical contests and thousands more in youth team and scouting programs.

We're proud of our contributions to America, but we represent only one nonprofit organization contributing to communities. The benefits accruing to our nation through the activities of these nonprofits are incalculable, but they most certainly exceed the cost of the Revenue Forgone appropriation. The U.S. Postal Service is our lifeline -- increased mailing costs can only result in a reduced ability to communicate with our own members for the purposes of coordinating and publicizing our community service activities.

Mr. Chairman, The American Legion strongly urges you and your colleagues to continue adequate funding of the Revenue Forgone appropriation to ensure the continued conduct of the many benefits programs provided our nation by public-spirited groups.

NATIONAL PUBLIC RADIO

STATEMENT OF DOUGLAS J. BENNET, PRESIDENT

Mr. Chairman and members of the subcommittee, on behalf of National Public Radio (NPR) and over 380 member stations, I wish to testify in favor of fully funding revenue forgone for FY 1991. The Postal Service projects the FY 1991 requirement for revenue forgone is \$484.59 million under current rates and estimates that an additional \$31 million will be needed following the proposed rate increase in February of 1991. While the mail is not the primary tool used by public radio stations to communicate with their members, it is an important one. Reasonable postal rates are a key component of every station's budget.

National Public Radio is proud of the record it has built in the past 20 years along with its member stations for outstanding programming and public service. Our member stations, all nonprofit entities, serve over 13 million listeners a week with award-winning national public affairs and cultural programming and locally-produced programs tailored to meet the needs of individual communities.

Public radio is indeed fulfilling an important role for listeners across the country. In a November, 1989 Gallup survey completed for the Times-Mirror Center for the People & the Press, NPR news, which is heard on a majority of public radio stations, was rated by a wide variety of journalists, government officials, academic leaders and business executives as "having the most positive influence on American journalism." Cultural programming heard on public radio stations brings major symphony orchestras to rural areas without an orchestra and brings music from many different cultures to communities across the country through such programs as AFROPOP, THE THISTLE AND SHAMROCK and BLUESSTAGE. And recent changes in NPR's news division will provide enhanced coverage of Hispanic issues in the newsmagazines ALL THINGS CONSIDERED, MORNING EDITION and WEEKEND EDITION.

Public radio stations rely on a mix of funds from federal, state and local governments and universities, foundations, corporations, and individuals to make this programming possible. Our listeners are now the largest single source of support. In 1988, nearly 1.2 million individuals contributed a total of \$54.8 million to their local stations, about 24 percent of public radio income.

These same stations use the postal system to develop and maintain this listener support. Primarily, they use nonprofit rates to mail program guides, which contain program listings for the station that are unavailable elsewhere, along with information about the station, membership, and in some cases, feature articles about the community. In addition to providing members with this basic information, the program guide serves as a reminder of the station's importance to the listener and the community, and helps to reinforce the station's need for contributions from each and every listener at fundraising time.

Some of our stations with larger staffs, glossier program guides and the capability for more sophisticated record-keeping send their program guides at the second-class nonprofit rate. Many of our stations, however, produce a simpler guide similar to a newsletter. These stations, along with those who choose not to pay for the special handling provided second-class mail, use the nonprofit third-class rate.

In a more direct effort to attract and maintain members, stations use nonprofit third class mail for targeted direct mail campaigns, pledge follow-up, and renewal requests. In the case of WRVO-FM in Oswego, NY, response to direct mail brings in 25 percent of the station's revenues.

KUAT-AM/FM in Tucson, AZ is another fairly typical example. In FY 1989, KUAT sent 68,414 pieces of mail via the third-class nonprofit rates: 57,600 program guides and 10,814 donor solicitations, for a total cost of \$6,328.

POSTAL SERVICE LANGUAGE

We recognize the committee's concern about "commercial" material in nonprofit third-class mail, especially travel offers, affinity credit card arrangements, and insurance programs -- cooperative ventures between nonprofit and for-profit entities or programs in which nonprofit organizations are raising funds in perceived competition with small business.

We believe, however, that the language provided by the postal service goes far beyond the purpose of curbing those direct offers. The language contained in the proposal would deny nonprofit third-class rates to mail which "advertises or promotes the sale of, recommends the purchase of, or announces the availability of any article, product, or merchandise produced in whole or in part by a person or organization not authorized to mail at the [nonprofit third-class] rates." That wording is so broad that it could be interpreted to bar reviews or recommendations of books or albums or unbiased comparisons of different products. As an example, attached is a copy of an article from the program guide of WAMU-FM in Washington, D.C. which could be considered to "recommend the purchase of" certain albums, and could therefore render the program guide ineligible for nonprofit third-class rates. I think you will agree that the article is exactly the kind of service public radio station members should expect from their station.

Products Offered by the Nonprofit Mailer

If the committee does adopt language curbing product and service offers in nonprofit third-class mail, we believe that the test for whether a product or service could be offered should be who owns a product that is being offered for sale, rather than who has produced it, as suggested in the postal service language. If the organization owns, has title to, or possesses the marketing rights to a service or product it should be allowed to offer these services or products to its members through third-class nonprofit mail. The use of "produced

in whole or in part" in the case of products and "provided in whole or in part" in the case of services could preclude offering items or services owned by the nonprofit and of particular interest or help to the nonprofit's membership, but have been partially or entirely produced by another entity or even a contractor for the nonprofit. We believe ownership is a clearer test.

Space Advertising

As I mentioned earlier, many of our stations' program guides either do not qualify for second-class rates or are sent third-class because the station does not wish to pay for the special handling received by second-class mail. Many of the program guides sent third-class contain space advertising, which is sold to help cover the cost of the publication. The language offered by the postal service would make these program guides ineligible for nonprofit third-class postage. For many, whose publication schedule or the necessary record-keeping makes second class an unrealistic or impossible option, the only alternative would be commercial third-class rates, which are roughly double the nonprofit rates. Referring back to our example station, KUAT's third-class postage would increase from \$6,328 to around \$11,000 per year if its program guide contained advertising and was forced to use commercial rates.

We believe that any language adopted by this committee prohibiting product or service offers in nonprofit third-class mail should not prohibit space advertising in nonprofit third-class publications as long as the proceeds inure to the nonprofit organization. Public radio stations and other nonprofits have followed this practice for years without penalty. A change now would force stations to drop advertising in their publications and fund program guides from operating expenses or switch to commercial postal rates and attempt to sell twice the advertising to break even.

OMB PROPOSAL

We also urge the committee to reject the Office of Management and Budget proposal which would substantially redefine qualifications for nonprofit mail and reduce revenue forgone by \$112 million. The proposal would limit the "educational" qualification to organizations whose "primary purpose is to administer a course or courses of instruction through a teacher-student relationship in school." This definition of "educational" would preclude many public radio stations from using third-class nonprofit rates.

Thank you for the opportunity to provide testimony regarding revenue forgone and the proposals to modify eligibility for third-class nonprofit rates. I want to thank the committee for its past support and urge full funding of revenue forgone for FY 1991. Nonprofit postal rates help public radio stations carry out their mission of providing outstanding alternative and informative programming and public service to their local communities. Revenue forgone is indeed a program worthy of continued commitment of federal dollars.

All Things Considered Music of the News

Whether the topic is lizards, politics, or cars, part of Marika Partridge's job is to find music that complements news stories every day on *All Things Considered*.

Partridge is the director of the award-winning news program heard every evening on WAMU, weekdays at 6:30 p.m. and weekends at 6 p.m.

When looking for music recently to follow a report about a hospital, she remembered a song on a record that belonged to her parents and tracked down the music in time for the day's broadcast.

It was "Dem Bones" by the Delta Rhythm Boys on RCA. "That one worked particularly well," she says modestly. "It's a really wonderful piece."

Selecting the music "buttons" that air between news reports is a task the director doesn't take lightly. "I try not to let anybody second guess me, including myself," says Partridge. "I try to avoid what might seem the automatic choice or connection."

All Things Considered receives so many inquiries about Marika's distinctive music selections that the program has compiled its second annual "Top Twenty" list to help listeners "name that tune."

The latest "ATC Top Twenty" features groups such as the gypsy jazz quartet Cafe Noir, the Ray Bryant Trio, bluegrass great Bela Fleck, "neo-primitive bug music" by The Horseflies, and American banjo player Tony Ellis.

Under the pressure of the news program's daily deadlines, Partridge usually doesn't have much time to ponder the perfect music choice or hunt for unusual music from the Andes or the Ukraine that will punctuate, not compete, with the news.

On a typical day, she talks to tape editors to get the gist of a report, and then works quickly from some 150 pre-



Photo by Mark Hinesman

Marika Partridge, director of *All Things Considered*

cisely-timed music segments that she has ready-to-go in the studio.

When news is breaking, she makes snap judgments, turning to the rotating rack of music segments behind her. "I reach back and spin the rack right to the section and length of time I need. Then I try to grab something that's not giddy—something straightforward. . . .

"It can be difficult with news because almost all news is sad, and you can't always use sad or reflective music. Sometimes I'll try to lighten it up."

Partridge relishes the opportunity to get authentic and unusual music on the air, particularly music from all over the world. She has a soft spot for the more obscure record labels, and opposes using generic "international" music.

"I would hate it if we aired a story on the Iran/Iraq war, for example, and then followed it with a Middle Eastern piece which was really Israeli music."

A piece of paper taped above Partridge's desk lists innumerable types of music and regions all over the world. She has undertaken the formidable task of finding music to represent each style

WHAT'S NEWS



Photo by Phil Jacobs

Jessica Berman

WAMU reporter and news editor Jessica Berman received two "Achievement in Radio" (A.I.R.) awards recently—"Best Spot News Coverage" for a report on the retirement of former D.C. council member Carol Schwartz, and "Best News Series" for an in-depth look at depression

and its treatment. The A.I.R. awards is an annual broadcast competition celebrating excellence in Washington, D.C., radio.

Mike Cuthbert served as "Grand Marshall" of "Australia—A Bicentenary Celebration" last fall at the Old Post Office Pavilion. The WAMU talk show host also moderated a panel on "Work and Welfare" at the annual Employment and Training Policy Conference of the National Governors' Association.

WAMU recently acquired MEMSYS, a membership management software package. Membership director Doug Miller says MEMSYS will help eliminate duplicate mailings, allow payments to be processed more quickly, and greatly improve the station's ability to track member's program preferences.

Phil Brown of Walkersville, Maryland, was the happy winner of a Goya guitar at WAMU's 4th annual Pick 'N' Swap held at Mountain View Park in Hyattstown, Maryland. ■

Compiled by J.S. King

Music, from page 4

and each region listed, and hopes to find four moods—happy, sad, indifferent, funny—as well as short and long pieces within each category.

When recording music segments, she draws from her own extensive record collection, from the music library at National Public Radio, and from a variety of other sources, including family, friends, and small record companies around the country.

Partridge strives to retain the essence and natural length of the original music she records—a challenge since music buttons are only from two seconds to two minutes in length. "I refuse to wreck a piece just to force it into what I need," she says.

The *ATC* director's insatiable interest in music was fostered by a childhood spent traveling and living abroad—in the Philippines, Taiwan, Iceland, Europe, Africa, and India. Partridge, who

plays piano and performs traditional Irish music, still has many unusual recordings her family made during its travels—such as a tape of Masai tribesmen singing at camp.

Visitors to the *All Things Considered* newsroom can immediately identify the director's work area by the black and red 78 rpm discs spinning on wires from the ceiling above her desk. The vintage acetate recordings contain such classics as songs by "Mad" magazine's Alfred E. Neuman, a rabbi singing on Menorah Records, and a Lucky Strike cigarette commercial.

Partridge joined NPR in 1985. After graduating from college, she worked as music director at KTOO in Juneau, Alaska. She then helped found the community-based station KCAW in Sitka, Alaska, spending five of her eight years with the station as program director. ■

ATC Top Twenty

In compiling this list of favorite albums, I've kept several criteria in mind. I see this as an opportunity to recommend new music that you might not otherwise hear about. With one exception, they are recent releases. Some contain most requested music used during *All Things Considered*. But I didn't include records that had just a good moment or two. I was looking for consistency—records you can put on your turntable and enjoy from start to finish. Happy listening!

—*Marika Partridge*
Director, *All Things Considered*

Cafe Noir "Cafe Noir" (Gajo, 1988)

A lovely album of original material and traditional gypsy melodies, it's one of the year's best.

Sandy Bull "Jukebox School of Music" (ROM, 1988)

Sandy Bull has returned with this sensational instrumental album that combines and juxtaposes sounds ranging from country-western to Middle Eastern.

Max Lasser's Ark "Earthwalk" (CBS, 1987)

This album by Max Lasser, a Swiss guitarist, is one of the most tasteful of "new age" sounds to emerge.

Tony Ellis "Dixie Banner" (Flying Fish, 1987)

Members of the Red Clay Ramblers back banjo player Tony Ellis and the combination of talents is wonderful!

Night Ark "Picture" (RCA, 1986) and "Moments" (RCA, 1988)

Both these records are exquisite, with moving melodies, artfully arranged.

Charlie Haden "Quartet West" (Verve, 1987) and "Quartet West in Angel City" (Verve, 1988)

Charlie Haden's bass is magnificent and sax player Ernie Watts continually threatens to steal the show.

Ashwin Batish "Sitar Power" (Batish Records, 1986)

This award-winning album is a fusion of western rock and Indian raga.

Ellen McIlwaine "Looking For Trouble" (Stony Plain, 1987)

If you like gutsy, blues-based, and highly listenable rock 'n' roll, look no further.

All Ears Review (ROM Records)

You can subscribe to these eclectic compilations of music that come out on CD and cassette every six to eight weeks.

The Horseflies "Human Fly" (Rounder, 1987)

"Neoprimitive bug music" has redefined the limits of square and contra dance band music.

Toumani Diabate "Kaira" (Hannibal, 1987)

Diabate is considered to be the youngest and greatest kora player from Mali. The kora, a 21-string harp/lute, produces a hypnotic and beautiful sound.

The Ray Bryant Trio "Today" (Polygram, 1988)

Pianist Ray Bryant is joined here by drummer Freddie Waits and bassist Rufus Reid, resulting in jazz that borders on gospel.

James Van Buren "It's All Over" (Van Buren Records, 1986)

This Denver-based crooner and songwriter has been performing for over 25 years, but is just beginning to attract national attention.

Bela Fleck "Drive" (Rounder, 1988)

This is bluegrass at its best. All the tunes are Fleck originals, driven by his powerful banjo.

See Top Twenty, page 11

COMING UP

Acoustic Music Showcase

Make a resolution to attend WAMU's monthly Acoustic Music Showcases on Tuesday, January 10, and Valentine's Day, February 14. These popular 88.5 FM events will be held at The Sign of the Whale (formerly Quincy's Restaurant) at 5444 Columbia Pike in Arlington, Virginia. A \$5 cover charge supports the station's bluegrass and other traditional American music programming. For more details, call the restaurant at (703) 671-2774, or tune to WAMU 88.5 FM.

Feedback: Catch Up On Current Events

Kick off the New Year by tuning in to WAMU's national call-in program *Feedback: America Talks Back To Washington*. The last two broadcasts of this series will air on January 8 and February 12 from 9 to 11 p.m. Sanford Ungar, dean of The American University's

School of Communication and former host of *All Things Considered*, hosts the current affairs show. You can participate in the lively debate by calling *Feedback* at 202-885-8850 or toll-free at 1-800-433-8850.

The Volunteer Link

WAMU thanks all volunteers who participated in the record-breaking fall fund-raiser! The next fund-raiser is scheduled for March 11-18. Don't miss all the fun. Plan to volunteer now. You can find out more about being an 88.5 FM volunteer by receiving a copy of "The Uplink," WAMU's volunteer newsletter which is published quarterly. Call volunteer coordinator Laurie Clevenger at 202-885-1030 to be put on the mailing list. If you volunteered for the fall fund-raiser and didn't receive a thank-you note, please send Laurie your address. We will make sure you receive a note and the next issue of "The Uplink" ■

Compiled by Monique Conrad

Top Twenty, from page 5

The Greene String Quartet "Molly on the Shore" (Hannibal, 1988)

What's so compelling about this string quartet is the material it chooses. From Charlie Mingus to The Doors, every selection exudes good taste.

The Bodeans "Outside Looking In" (Slash, 1987)

The melodies and harmonies of this Wisconsin group are reminiscent of the Everly Brothers, with a modern twist.

Roy Buchanan "Hot Wires" (Alligator, 1987)

Buchanan's innovative blues guitar ranges in sound from soulful to caustic.

Uakti "Uakti" (Polygram, 1987)

This quartet is heavily influenced by the folk music of its native Brazil.

"The Works of Carl Neilson" Performed by Vestjysk Kammerensemble Denmark (Deutsche-Grammophon, 1974)

Neilson was a Danish composer (1865-1931) whose Wind Quintet (opus 43) is the primary work on this album.

Casey Jones "Solid Blue" (Rooster Blues, 1987)

This hot collection of original R&B numbers by drummer Casey Jones is one of the most danceable records I've ever heard!

For information on how to obtain these recordings, send a stamped, self-addressed envelope to: All Things Considered Top Twenty, National Public Radio, 2025 M St., NW, Washington, D.C. 20036. ■

FISCAL YEAR 1990 SUBMITTED QUESTIONS

[CLERK'S NOTE.—The following are questions and answers submitted by the subcommittee to the National Critical Materials Council following the hearing held with them regarding their fiscal year 1990 budget. They were not returned in time to appear in the fiscal year 1990 hearing record. For this reason, the subcommittee is including them in this year's record.]

NATIONAL CRITICAL MATERIALS COUNCIL
QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Question: Has OMB entered into the decision on not to hire permanent staff?

Answer: The Office of Management and Budget has not been directly involved in the decision to hire permanent staff pursuant to the 1988 Omnibus Trade Bill. Its sole interaction with the Council has been to advise that the NCMC stay within its fiscal year 1989 appropriation, including 100 percent absorption of the 4.1 percent pay increase. The amount provided in the 1989 appropriation is sufficient to cover the costs of three staff positions.

Question: Your testimony states that no funding is being requested to continue the Council beyond fiscal year 1989 because the broad mandate of the Council is duplicative of the mission of other agencies. Legislation to disband the Council and direct its responsibilities to the Office of Science and Technology Policy and the Department of the Interior has been submitted to the Congress. Mr. Moore, correct me if I am wrong, but I think the Critical Materials Council was established within the Executive Office of the President because there was no coordinated Federal approach to critical and advanced materials research. As a matter of fact, numerous Federal agencies as well as the Office of Science and Technology Policy, all have had some jurisdiction over critical and advanced materials, but no one was coordinating research and policy. What makes you think the situation will change once the authorities of the Council go back to these agencies?

Answer: The OSTP already serves as a focal point of research and development coordination for the President, with effective mechanisms in place to coordinate Federal research and development activities, including advanced materials research. Transferring the Council's advanced materials research function to the OSTP will be far more efficient and effective in promoting proper coordination, integration, and review of the various Federal research activities in this field. It will also prevent

conflicting and overlapping lines of authority with agencies having direct responsibility for planning and conducting advanced materials research and development programs.

Question: Last year's trade bill contained a provision authorizing a Commission on Superconductivity to be carried out by the Council. Your budget does not contain any funds for these activities. How do you plan to comply with the trade bill in the absence of additional Federal dollars?

Answer: Council staff and funding are sufficient to carry out this function.

Question: If the Congress decides to continue the Council, how much money is needed in fiscal year 1990 to support the Superconductivity Commission?

Answer: Under the current proposed charter the report would be produced by the end of fiscal year 1989, so there would be no need for additional funds in 1990.

Question: On the issue of mission duplication, I just want to point out that the Council's mission is not meant to duplicate existing agency mandates, but to review agency policies to determine whether or not the country is moving on the right track with respect to preserving and advancing our industrial base. How is this mission duplicative of other agency missions?

Answer: The Council cannot and should not have planning authority over advanced materials research work of other Federal agencies with such programs. This runs counter to the mission orientation of Federal departments and agencies. Research projects are inseparable from the overall responsibilities and missions of the various agencies. Superimposing a particular set of priorities or plans for advanced materials research by the Council on the long-established planning and budgetary relationships in the various agencies of the Federal Government is neither feasible nor practicable.

Question: Your testimony further states that the Bush Administration will rely on the Economic and Domestic Policy Councils to provide the coordination role presently provided by the Critical Materials Council. With the tremendous responsibilities of these President's Councils, competition for attention and resources will be great and I would assume that coordination of minerals and materials policy will not be a top priority. So, without the Critical Materials Council, wouldn't you agree, Mr. Moore, that it will be business as usual for industrial policy in this country?

Answer: Yes, if you mean that industrial policy is that which is determined by U.S. industry in response to market signals. That is the way it should be. Whether the Council exists or not, these decisions are ultimately best made by the private sector. As for those decisions which are within the purview of Government, they will always be prioritized by the events of a given time. The DPC and EPC are fully capable of coordinating materials policy issues. The OSTP has full-time staff to coordinate R&D activities. Therefore, these long-established offices and functions are certainly capable of coordinating materials policies and programs.

Question: The existing Council has been hamstrung by OMB, because of a lack of interest in these matters. I view the elimination of the Council as a position statement on materials and minerals development policy. How do you respond to that, Mr. Moore?

Answer: The Office of Management and Budget carries out the President's policies. Transfer of the Council functions to OSTP and Interior reflects the Administration's view that the Council's role can best be fulfilled by these agencies and that the responsibilities of the Council should therefore be transferred to agencies as indicated.

Question: Mr. Moore, I think the biggest frustration on this Council is that we have continued to provide funding but the Council has not been able to do an effective

job because of a lack of support within the Administration. If the Congress denied the President's request to eliminate the Council, what type of staff and resources would be necessary to develop an effective entity to carry out the responsibilities given you under existing authorization?

Answer: OSTP and Interior are better able to carry out the necessary functions of the Council. In addition, Defense, Energy, Commerce, NASA, and NSF have collectively hundreds, if not thousands, of materials and minerals experts. More resources are not needed. A more rational organization that relies on agencies with experts already on their staffs is what is needed and is in part why the Administration suggested transfer of Council function to Interior and OSTP.

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